# Nation's Business

**A USEFUL LOOK AHEAD** FEBRUARY 1957

## Selling tomorrow's market:

THE NEW CONCEPT

THE TOOLS

THE SALES FORCE

PAGE 76

Here's outlook for taxes PAGE 32

**Business faces major test in Congress** PAGE 7

New way to spot leaders PAGE 62

Five trends shape business future PAGE 29

# The world's first bronze building rises on Park Avenue

Architectural Bronze will add warmth and color to the Seagram Building—and will mellow gracefully through the years

**SECTION OF** a 26-foot long extruded architectural bronze I-shaped mullion. Such shapes will extend full height of building at about 4½-foot horizontal spacings.

**Massive walls are giving way** to lightweight "curtains" of glass and metals. In the new 38-story Seagram Building now rising on Park Avenue in New York City, warm, enduring bronze is used for the first time in this way.

**Large extrusions** of architectural bronze will stand out from the walls, creating long, sharp shadows which will give the building clean vertical accents. With these and smaller extrusions and rolled sheet bronze spandrels, a special arrangement of parts was designed for assembling a setting for the floor-to-ceiling windows.

**How Anaconda Helped.** Heretofore, architectural bronze extrusions were limited commercially to those whose cross-section would fit in a 6-inch circle. The new I-shaped mullions are much larger. Working with the architects and the architectural metals fabricator, Anaconda's American Brass Company studied the extrusion problem, found the answer. Now, as principal supplier, American Brass—with specially designed dies and its big, modern extrusion equipment—is producing large quantities of the I-shaped mullion and the many other extrusions required.

**This manufacturing "first"** is typical of the way in which Anaconda and its manufacturing companies—Anaconda Wire & Cable Company and The American Brass Company—are helping industry adapt nonferrous metals to new fabricating and manufacturing problems. For help with your specific metal problems, see the *Man from Anaconda*. The Anaconda Company, 25 Broadway, New York 4, N. Y. 56253 REV.

Illustration at right shows scale model. Architects: Mies van der Rohe and Philip Johnson. Associate Architects: Kahn & Jacobs. General Contractor: George A. Fuller Company. Architectural Metals Fabricator: General Bronze Corp.

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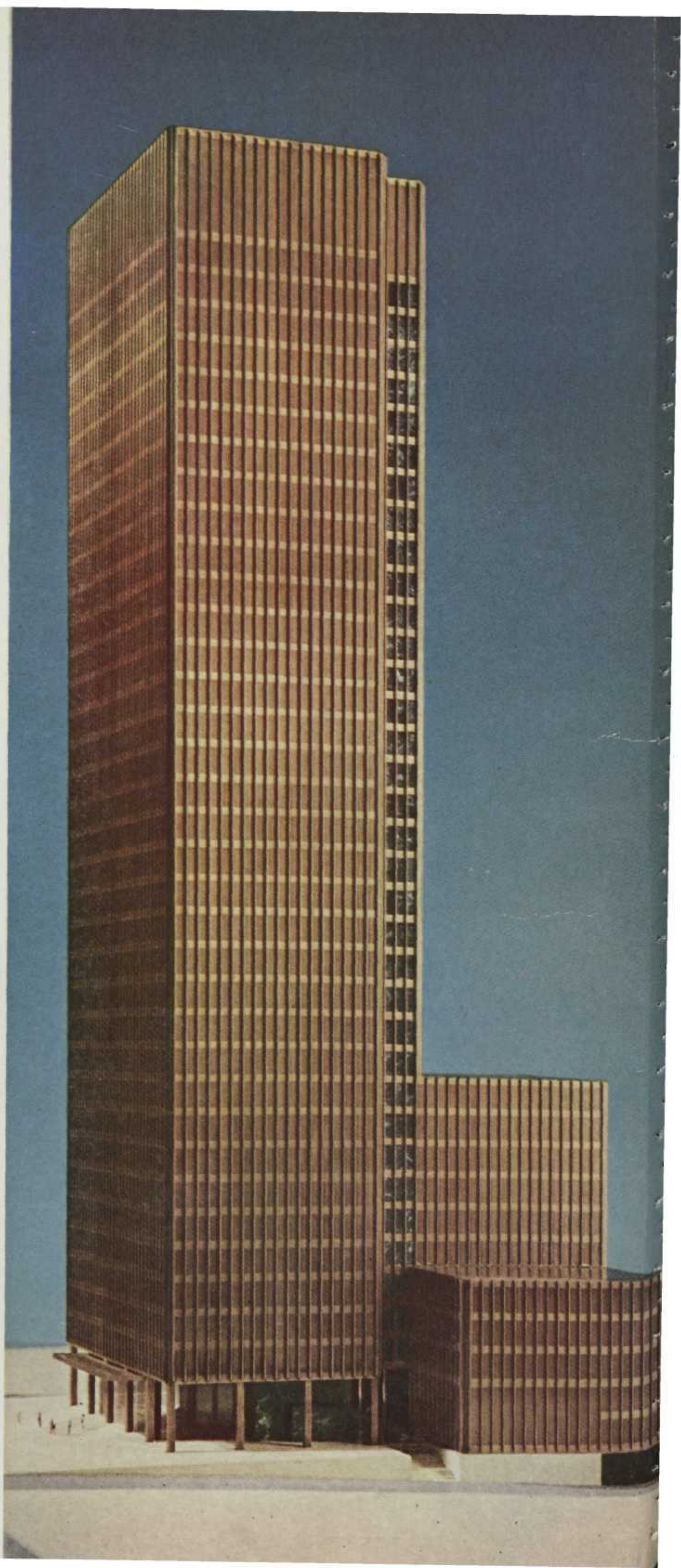

How soon can you deliver?

My model number is 60791. Do you have parts?

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When you get an inquiry from out-of-town, reach for your telephone. That way you get to the prospect before competitors—while he's still interested. You can answer his questions, write the order quickly, personally.

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*Beware of shipping "bargains"!* If you're paying *extra* for pickups, deliveries, insurance, or unnecessary bookkeeping—chances are your shipping dollar's being taken for a ride.

When you ship by Rail or Air Express, you pay *one fixed charge* from pickup to delivery, within vehicle area limits. That's all! No hidden costs or extra charges. No confusion or added paper work. It's always a real buy—swift, dependable and complete. And Railway Express serves some 23,000 American communities. What's more, you can speed shipments almost anywhere in the world through the international service of Railway Express.

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**safe, swift, sure**

# Nation's Business

FEBRUARY 1957 VOL. 45 NO. 2

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HALF the world is half asleep! Men who could be making *twice* their present salaries are coasting along, hoping for promotions but doing nothing to bring themselves forcefully to the attention of management.

They're *wasting* the most fruitful years of their business lives . . . throwing away thousands of dollars they may never be able to make up. And, oddly enough, they don't realize—even remotely—the tragic consequences of their failure to forge ahead while time is still on their side.

These are the men who are unknowingly headed for the frustrations and the disappointments of mediocrity. They'll go part way up the ladder and down again by the time they're fifty years old. They'll be executive material in their twenties and thirties—and clerks in their fifties. They'll have high hopes for themselves and their families while they're young; but only struggling, skimping and regret later on when their earning power should be at its height.

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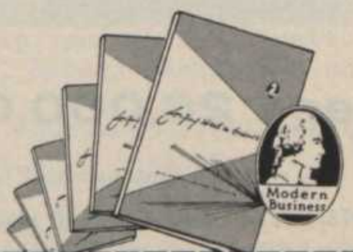


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Every 7½ seconds another child is born!

By 1975, 221 millions of us will need water. To drink, bathe in, make and process our goods, grow our food . . .
26 million gallons apiece during each lifetime! Yet even *now* many parts of the nation face critical water shortages.

Any wonder water officials are worried and ask your help in assuring the nation's future water supply? Do your part.

1. **Encourage future water planning.**
2. **Support realistic water rates and water supply bond issues.**
3. **Conserve water wherever you can.**

Without water, what?

**PROOF POSITIVE**
**Cast Iron Pipe**
**Saves You Tax Dollars**

Still in service, this cast iron water main laid in Sacramento, Cal. over a hundred years ago is still piping water. This is typical of many century old cast iron water and gas mains now serving throughout America.

Small wonder that where long life, dependability and economy are "musts," water officials prefer cast iron pipe . . . No. 1 Tax Saver!

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# *management's* WASHINGTON LETTER

▶FREE ENTERPRISE FACES MAJOR TEST in Congress this year.

Business, labor will make record push for legislation compatible with their views.

Top labor strategists in capital admit AFL-CIO will hurl millions of dues dollars, cadres of talent into fight for laws sympathetic with union aims.

They'll aim big guns at 14 issues.

Businessmen define 15 top issues.

Only one major business issue--wiping out portion of big postal deficit--is unopposed by AFL-CIO.

Issues involve:

Right to work, secondary boycott, foreign aid, Hoover Commission recommendations for government economy, taxes, spending, government housing, social taxes, government intervention in insurance, education, wage fixing, power, atomic energy, agriculture.

▶BUSINESS--KNOWING FORCES of collectivism are formidable--will launch new campaign this month.

Spearhead will be Aircade of business leaders who will travel by airplane to 12 communities.

They'll discuss crucial issues with local business leaders in all-day sessions.

Group will be headed by U. S. Chamber President John S. Coleman, will include others knowledgeable on issues that'll influence your business.

▶HERE'S HANDY LIST of cities which business leaders will visit:

Los Angeles, Feb. 4, Hotel Biltmore.

Oakland, Calif., Feb. 5, Claremont Hotel.

Salt Lake City, Feb. 6, Utah Hotel.

Seattle, Feb. 8, Olympic Hotel.

Minneapolis, Feb. 11, Hotel Nicollet.

Chicago, Feb. 13, Sheraton Hotel.

Cincinnati, Feb. 14, Hotel Netherland-Hilton.

Dallas, Feb. 15, Hotel Statler.

Atlanta, Feb. 18, Henry Grady Hotel.

Pittsburgh, Feb. 19, Webster Hall.

Hartford, Feb. 20, Statler Hotel.

Detroit, Feb. 28, Hotel Sheraton-Cadillac.

Watch local papers for details in your city.

▶CREDIT MEN PONDER BUYING, paying habits for tip on what's ahead.

Latest survey on consumer spending plans--made by University of Michigan Survey Research Center--indicates:

Consumers are still optimistic, satisfied with their own financial situation, expect to spend freely in months ahead. Details on page 115.

Next survey will be made in May-June, findings ready in July.

Signs are pointing to possible buying binge.

Consumer credit's rising but at slower pace. Customers are in paying-up phase of credit cycle.

People have money--personal income's now highest ever, still going up.

Personal saving's at rate of more than $21 billion a year, also highest ever.

▶CONSUMER CREDIT STUDY by Federal Reserve is expected to be out about mid-March.

Most comprehensive credit analysis ever made, it'll be in 6 volumes.

Study was begun last year at request of President Eisenhower. Its purpose:

To learn more about consumer credit.

Washington's wondering whether study will add new fuel to pressure for passage of stand-by credit controls.

Spark that set off stand-by controls talk was credit-buying spree of 1955.

To help you assess situation as debate unfolds, here's background on credit's growth:

Total consumer credit outstanding in 1939 was $7.2 billion.

Today it's $40.6 billion.

Related to personal income--what people have with which to pay debts--1939's credit was 9.9 per cent.

Debt outstanding now is 12.3 per cent of personal income.

Credit experts explain why installment plans are being used more today:

Convenience is big factor, new uses for credit is another.

Auto purchases account for large part of total outstanding.

Currently Americans owe about $14.5 billion on cars. Figure's about $1 billion higher than year ago.

Past year's increase in total credit outstanding: about $3.5 billion.

Item: U. S. consumers have paid up

about $37 billion in 12 months.
That's largest ever.

▶PERSONAL INCOME'S AT NEW high annual rate: $333.6 billion.
Figure's about $19 billion higher than year ago.
In 1939 it was $72.9 billion.

▶BILL COLLECTION INDEX shows healthy state of consumer finances.
Index now's 107--was 99 three months ago.
It's highest since base period 1952 when index was started at 100.
Meaning: Overdue bills are easier to collect.
Index is compiled by American Collectors Association--with 2,000 member companies across the nation.
Association studies also show:
Average payment now is $13.62--up from $13 year ago.
Repossessions:
Less than 1 per cent.

▶THERE'S ROOM FOR BIG BOOST in personal consumption expenditures in years ahead.
Personal spending now equals about 64 per cent of gross national product.
Year ago it was 66 per cent.
In 1939 it was 74 per cent.
Situation's this:
Government spending, gross private domestic investment are rising, too, gobbling up larger percentage of GNP.
Long-range projections being analyzed in Washington point to expected zoom of personal consumption to about $330 billion--or more--within 5 years.
That's an increase from $267 billion a year now.

▶"YOU NEVER HAD IT SO GOOD."
That's how Soviet economist on staff of Russian Embassy in Washington describes U. S. economy.
Remark was made at diplomatic reception in nation's capital.
Red economist commented further:
"We know you are rich and getting richer all the time. We face facts as we find them."

▶HIGHER TAX EXEMPTIONS? Not in '57.
Rep. Wilbur Mills, key tax authority on Ways and Means Committee, says:
"We'd love to raise personal exemptions from $600 to $800."
But action would spur inflation, could take more away from people than tax cut would save.
What changes are in store?
Rep. Mills tells on page 32.

▶THREE MEN WITH NEW JOBS in Washington will exert influence on you and your business.
They're chairmen of powerful congressional committees.
All Democrats, they are:
Sen. Theodore F. Green, 89, Foreign Relations Committee; a man known as an archliberal and an internationalist.
Rep. Thomas S. Gordon, 62, House Foreign Affairs Committee; supports Administration on many foreign policy issues.
Rep. Oren Harris, 52, House Commerce Committee; co-sponsored natural gas bill to exempt producers from federal regulation.
Note: Committee chairmen can swing votes in committees, push or delay bills, call meetings.

▶WASHINGTON IS BUZZING with this question:
Will U. S. lower bar on trade with Russia's European satellites?
If so, how much?
Export traffic in strategic goods is limited by Battle Act.
But we do trade with communists in nonstrategic items.
Exports to Red countries include:
Tallow, grains, seed corn, wool rags, some machinery.
Our imports include:
Undressed furs, meats, benzene, fertilizers, glass and glass products.
Talk of increasing trade with satellites is fired by official reaction to Hungary's revolt, feeling that Moscow's hold on satellites is melting.
However, few see chance that Congress would relax Battle Act.
General expectation is that U. S. farm surpluses will be offered.
Watch for: Executive action to initiate trade with satellites in surplus commodities, reclassification by Commerce Department of some items now regarded as strategic. Meanwhile,

trade with communist bloc is rising.
Imports are highest since 1951, exports highest since 1950.

▶U. S. TRADE WITH CHINA--a trickle.
Reason:
U. S. embargo on shipments to, from Red China mainland.
U. S. exports to China in 1955 came to only \$3,000--and most of that was accounted for by delivery of an automobile to diplomatic post of friendly country.
There were no exports in 1956, none in sight for 1957.
Imports of goods from China in 1956 totaled about \$98,000.
Year ago they totaled \$195,000--most of this goods originating in China but transshipped from other countries.
What Chinese items does U. S. buy?
Art objects, antiques, feathers (to line cold-weather gear for military), hog bristles (for paint brushes).

▶UNION MEMBERS ARE BEGINNING to resist higher dues.
Steel union officials face aggressive opposition for reelection for first time because of dues increase from \$3 to \$5 a month.
Machinist union members defeated proposed dues increase of 70 cents a month, 50 cents of which would have gone into \$35 a week strike fund.
Printers union members rejected a proposal to build \$5 to \$10 million strike fund through increase in current assessment from ½ per cent of wages to 1½ per cent.

▶YOU'VE HEARD OF GOVERNMENT enterprises that compete with private business.
But have you heard of private enterprises which compete with government business operations?
American firm asked permission to sell ladies' made-to-measure clothing to wives of U. S. army personnel in Europe.
Permission denied.
Reason stated in letter:
"Your firm would create competition for ready-to-wear apparel sold by post exchanges."

▶NEW SURVEY INDICATES what you'll have to offer to lure this year's engineering school graduates.
Survey by Stanford Research Institute covers 3,433 electrical engineering graduates of 129 colleges.
Here's what attracts graduates:
1. Glamor jobs--Rated highest were activities related to computers, data processing, military equipment electronics, electronics in general.
2. High starting pay--Lack of this in teaching profession is driving young engineers to industrial jobs.
3. Training programs--Graduates look for opportunity to continue education.
Other attractions:
Opportunities for personal advancement, desirable geographical location of job.
Fields rated as most attractive:
Development, design engineering, application and planning engineering, research.
Note: At time survey was completed more than half of the respondents already had accepted jobs.

▶GOVERNMENT'S GRIP on last synthetic rubber plant may end during this session of Congress.
Plant is U. S.-owned alcohol-butadiene plant at Louisville, Ky.
Legislation for its sale will be pushed this session.
If it's sold it will be 27th plant to pass from federal to private ownership.
Sale of industries once owned by government means they become revenue tax-producers, instead of tax revenue users.
Another example: Federal Barge Lines --sold by government to private interest in 1953. See page 40.

▶LOOK FOR: Flood insurance to be ready by spring. Details are being worked out by new Federal Flood Indemnity Administration....
Record number of trademarks to be registered in 1957. Past year's record: 20,778, says U. S. Trademark Association. Compares to 18,212 in 1955 and 15,939 in 1954....
National health survey to get under way soon. U. S. Public Health Service wants to know number, age, sex, occupations of persons suffering from disease, injuries, medical care received, time lost from work, other economic effects of illness.

# Letters from businessmen

### No favoritism

In reading about your report on major legislative issues in the next Congress [January issue] I note you mention help to small business. Isn't it about time we in America place everyone on the same taxable basis?

I am talking about cooperatives with their favored tax setup. I will always believe that the co-ops should pay their taxes on the same basis as any other taxpaying business. I can see that there will not be any chance for small independent business, between the co-op on one hand and the huge corporations on the other. I happen to believe that the huge corporations need a strong, healthy small business, otherwise in a few years I am convinced we will have socialism.

MARK YOUNG,
*Mark Young Oil Company,*
*Charles City, Ia.*

### Some rain . . .

Please cancel my subscription and don't burden down the mailman anymore. I looked at the first two issues and since then it has gone promptly into the wastebasket. Every article I looked at concerned big business, and by your standards we are microscopic. Only three people are employed here and you consider any place hiring under 500 as very small. Why not sell your subscriptions to the large firms only?

RAY BOBERG,
*R. W. Boberg & Co.,*
*La Crosse, Wis.*

### . . . some sunshine

Our company is a regular subscriber and we enjoy the magazine very much. It seems that in every issue there are several articles which pertain directly to us and we have derived some excellent ideas from these articles. Unfortunately, we have misplaced our November issue in which there were several articles of unusual importance to us. Would you be kind enough to send us a copy?

RAY E. HABERMANN, JR.,
*F. H. Bathke Company,*
*Saint Paul, Minn.*

### Shorter worktime

I fail to see the need for shorter hours for union employes, when about half those I know either are holding down two jobs or are running a business on the side in competition with some other small business. Shorter hours in this part of the country are making fewer instead of more jobs. Thanks for your interest in small business.

J. B. WHITTEN,
*Sherman, Tex.*

### Management's job

The article "Management is a 3-Part Job," which appeared in the December issue of NATION'S BUSINESS carried such a vital message that we are anxious for each member of our management team to have his personal copy. The attached check is in payment for 40 copies.

R. F. BAKER,
*Mercury Division,*
*Ford Motor Company,*
*Wayne, Mich.*

Your current management series has filled a long-felt need. This is the third consecutive month in which we have ordered 100 or more reprints. Please send 100 of "Management is a 3-Part Job."

CHARLES J. PRANGE,
*Railway Express Agency,*
*New York, N.Y.*

We certainly enjoyed it. Thank you for making such fine information available.

R. L. WOODRUFF,
*Robert Palmer Corporation,*
*Santa Barbara, Calif.*

This is an excellent addition to our kit of management tools.

A. S. THOMPSON,
*Liberty Mutual,*
*Pittsburgh, Pa.*

### Goes for the store

In each of your issues in the recent past, you have printed an excellent article dealing with the general subject of effective management, its selection, training and development. I have hesitated to take the time and trouble to ask for a reprint on each individual issue. I am enclosing $1 and would appreciate your giving me one copy each of the last 10 articles that have appeared in your magazine on this general subject.

R. M. BLOCHER,
*The Procter & Gamble Company,*
*Cincinnati, Ohio*

### What managers need

The article in the January issue entitled "Managers Need 3 Smart Teachers" is, in my opinion, an ex-

cellent treatment of a very complex subject. I was therefore delighted to learn through the footnote at the end of the article that reprints are available.

Enclosed is a check to cover 10 reprints. Congratulations on this very fine article with the hope that you will maintain this standard in the year ahead.

J. W. ROBINSON,
*Western Operations Coordinator, Leeds & Northrup Company, San Francisco, Calif.*

### Million, not billion

In the current issue (Washington Letter, January) I noted this item: "Department (Post Office) probably will ask for $400 to $500 billion boost." Perhaps closer checking of statistics would be in order.

H. O. HENNCKSEN,
*Pittsburgh, Pa.*

Judging by the service the Department is giving, the $400 to $500 billion would certainly not be too much.

MORRIS M. KLING,
*Kling Company, Louisville, Ky.*

Perhaps this is mixed like the high school graduate's letter in Morley's "The State of the Nation."

S. L. GILL,
*Raymondville, Tex.*

You, like all Washington units, have been so used to quoting figures about which you have not the slightest comprehension, that you are now getting the postal department into the multibillion dollar class. How about at least reading the copy before you print it?

W. J. CLYDE,
*Santa Barbara, Calif.*

### The British way

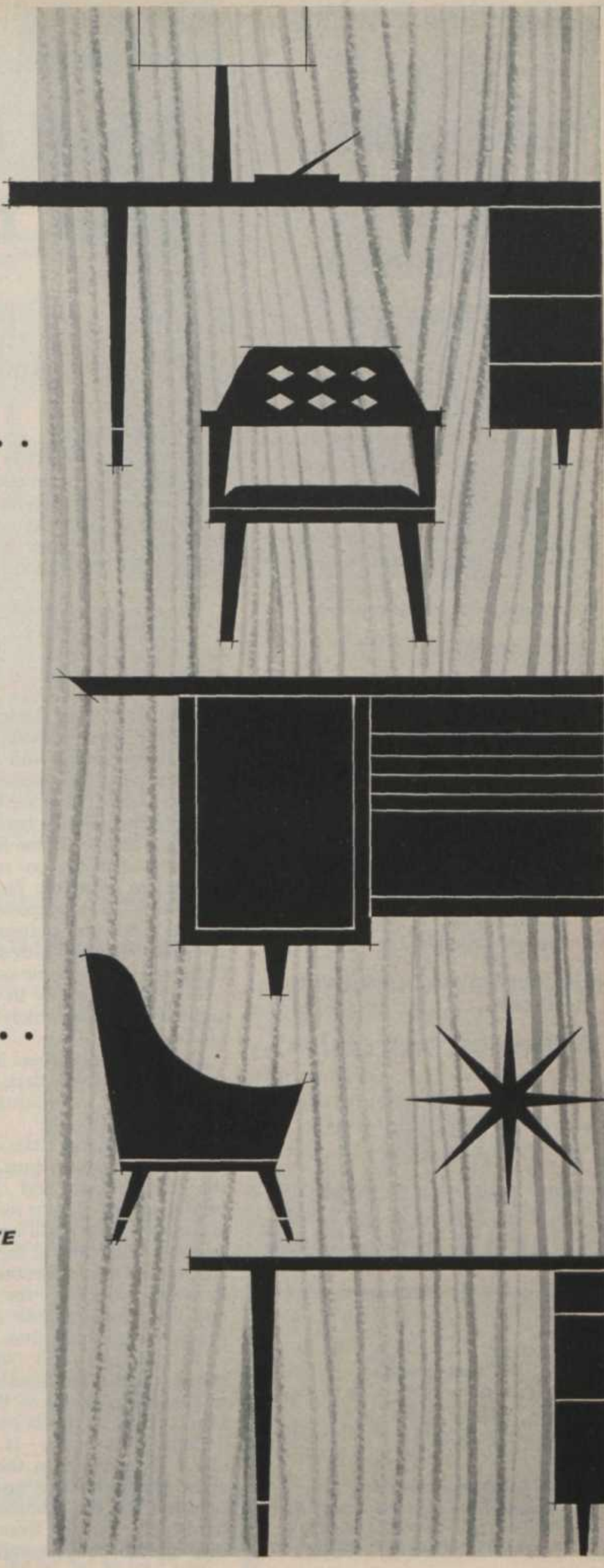
In your article in the December issue (State of the Nation) you give the impression that the British do not have a truly representative government.

Having lived there many years I do not altogether agree with you, since they work through a system of village, town or city government, and then county and so on, up to Parliament, whose members are directly elected by the people.

I consider their setup more sensitive to the wishes of the people than ours since the elected members are not placed in office for a set length of time but only for as long as they carry out the mandate of the electors.

All national problems are handled from London which makes for uniformity in laws, whereas we too often have different segments each acting in its own way.

H. D. VANT,
*Monroe, Mich.*



✓ WATCH THIS ISSUE

# Shall U.S. decide your town's growth?

## Loans and grants for depressed areas will add enormously to government power

PROPOSALS WHICH would give the federal government enormous new power and responsibility over the nation's economy—at a cost of millions of taxpayer dollars—will come under debate soon in the 85th Congress.

The debate will center on two bills—one introduced by Democratic Sen. Paul Douglas of Illinois, the other introduced for the Administration by Republican Sen. H. Alexander Smith of New Jersey.

Both of those provide for government loans, grants and other forms of aid to so-called economically distressed areas. These are identified as communities and regions which have not shared in the high level of economic activity in recent years and where relatively large numbers of workers are unemployed.

The bills are patterned closely after measures submitted to the 84th Congress by the same senators.

They differ chiefly in the amount and extent of aid which they would provide.

Legislative observers in Washington say it's likely that, if any law passes, it will incorporate some features from both bills.

Planks pledging federal assistance to distressed areas were included in the Republican and Democratic platforms and clamor for such legislation on Capitol Hill has been coming from both sides of the aisle. Pressure for aid also has come from other sources—including the AFL-CIO and the governments of the depressed areas themselves.

The Douglas bill, with amendments, passed the Senate, 60 to 30, in the closing days of the past session. It died in the House.

Senator Douglas is optimistic about its chances in the new Congress. He is banking heavily on recognition by the lawmakers of the hardships resulting from pockets of unemployment—a condition which the senator's legislative aide characterizes as "a bubonic boil on the body politic."

The Douglas bill provides for \$100 million in loans to depressed industrial areas; \$125 million in permanent public works; \$100 million in loans, grants and technical assistance to depressed agricultural communities in 300 counties (most of them in the South) and extension of unemployment compensation payments for idle workers in labor surplus areas who agree to take training for new jobs.

The Smith bill, bottled up in committee in the last session, also provides for loans and grants, but on a more modest scale. Drafted at the suggestion of President Eisenhower, it provides for \$50 million in loans for developmental work.

There are differences, too, in details. The Douglas bill, for example, would provide for $66\frac{2}{3}$ per cent participation by the federal government, as against 35 per cent under the Administration bill. Under the Douglas plan, loans could be extended for 40 years, while the Administration's measure sets a limit of 20 years.

Provisions for administration also differ. The Douglas proposal would create a separate, independent agency to steer the aid program. The Smith bill assumes that the loans, grants and other forms of assistance would be administered by the already existing Office of Area Development, a Commerce Department agency which now offers technical aid to distressed communities.

The central issue involved in proposed federal aid for depressed areas is: How far should the government's economic powers extend?

Under the Employment Act of 1946, the federal government is charged with fostering "conditions under which there will be afforded useful employment opportunities,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## Production "Percolates" as Time Lost to Coffee-Breaks Drops 50%!

It's true! Everywhere the new Kelvinator Hot 'n Cold has been put in use, enthusiastic employers are reporting big savings in time . . . formerly consumed by coffee-breaks. What's the secret? It's that convenient Kelvinator Hot 'n Cold—the handsome water cooler that provides a steady stream of piping hot water, too!

**Cuts Coffee-break time *in half*.** In a few seconds, employees can mix themselves cup after cup of delicious "instant" coffee, chocolate, or soup. You can place your Kelvinator Hot 'n Cold where it's handy . . . close to work areas . . . for on-the-spot coffee-breaks. There's no muss . . . no fuss . . . NO NEED TO GO OUT OR SEND OUT FOR coffee. Gives you control of the coffee-break, Mr. Employer!

***Fast action gets you FREE beverage bonus.*** Kelvinator is offering a handsome FREE BEVERAGE BONUS to buyers who act NOW. This offer includes 100 packaged beverages (freshly sealed, self-service envelopes of instant coffee, chocolate, beef-broth and chicken-broth, plus Pream and sugar), 100 cups, 100 spoons. So hurry! Act *now!* Offer expires March 31, 1957.

Mail coupon below for free booklet telling what the coffee-break costs you and what you can do to control it.

◀ *Bottle-type Kelvinator Hot'n Cold with Refrigerated Compartment and ice cubes. Cup and 5 shelf beverage dispenser are optional equipment at slight additional cost. Compact, convenient beverage locker also available.*

**Kelvinator** AMERICAN MOTORS CORPORATION

**HOT'N COLD WATER COOLERS**

***made in pressure and bottle models***

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KELVINATOR WATER COOLERS
Dept. 37, Columbus 13, Ohio

Sounds great! Send me more information and a copy of "How to Cut Coffee-Break Time In Half!" plus *Free Beverage Certificate* to:

NAME______________________ TITLE______

COMPANY______________________

ADDRESS______________________

CITY______________________ ZONE____ STATE______

including self-employment for those able, willing and seeking work, and to promote maximum employment, production and purchasing power."

In the past this language has not been construed as a mandate for the federal government to subsidize the economic development of communities not sharing in the general prosperity. The bills in the 85th Congress clearly point in that direction.

If aid is legislated it will go, on a basis of determined need, to the principal areas of distress. In its last count the Labor Department's Bureau of Employment Security classified 20 major labor-market areas and 57 smaller areas as distressed because of a labor surplus.

The depressed areas in this tabulation are the six to 10 major areas and 30 to 40 smaller areas which have had more than six per cent unemployed for a substantial period. Most of the latter are in the coal regions of Pennsylvania, West Virginia, Kentucky and Illinois, although some textile, resort and ordnance centers are also included, along with two hard-hit communities in Puerto Rico—Mayaguez and Ponce.

Proponents of federal aid to depressed areas summarize their case:

**1.** More than 10 areas of labor surplus have been on the chronic unemployment list for months, even years. More prosperous sectors of the economy can afford to channel enough employment into these areas to revive them economically.

**2.** Local efforts to attract new industry are inadequate.

**3.** Federal funds will help localities to attract more industries than they could if they had to rely solely on local resources.

**4.** National prestige suffers and human and physical resources are wasted if distressed areas are permitted to stagnate while workers migrate to new areas with more promising job prospects.

**5.** Migration of workers, where it has occurred, has not taken place fast enough.

**6.** The federal government has a responsibility to maintain employment throughout the economy. This argument has been used by the AFL-CIO.

Opponents of federal aid have this line of reasoning:

**1.** The distressed areas themselves are already doing an effective job of attracting new industry and redeveloping old.

**2.** Federal aid would stifle local initiative and discourage solution at the local level of problems which are essentially local in nature.

**3.** Federal aid to selected depressed areas would be discriminatory. The

Ohio State Chamber of Commerce, testifying on this point last year, said that federal attempts to promote industrial growth in selected communities "lead to discrimination between areas, communities and even states, penalizing one community or area which has had enough initiative and determination to solve its own problems in favor of another which perennially looks to and depends upon a paternalistic federal government for the solution of problems which should be solved locally."

**4.** Federal aid would invite permanent subsidies of activities which are uneconomic. The classic example of an uneconomic activity is horse blanket manufacturing, once a big business but now at best a marginal operation—a result of the auto's growth in popularity. The question is asked: Should taxpayers underwrite the operation of a business which simply has outlived its usefulness?

**5.** Federal aid would impede normal, natural, economic change.

**6.** Pressure for federal aid to distressed areas is coming at a time when, according to latest Bureau of Employment Security tabulations, some of the hardest hit labor surplus centers are reducing their number of unemployed and improving their economic health.

An outstanding example of this is Lawrence, Mass., which recently moved from Group F to Group E and then to Group D in the BES listing of labor markets. In addition, the upgrading of Wilkes-Barre–Hazelton, Pa., from Group F to Group E removed the last major area in the continental United States from the list of areas with unemployment of 12 per cent or more.

Other communities which recently have cut their level of unemployment include Evansville, Ind., Kenosha, Wis., Flint, Mich., Anniston, Ala., Kittanning–Ford City, Pa., Amsterdam, N.Y., and Bluefield, W. Va.

Opponents of aid to distressed areas in their fight against increased aid also cite the fact that the government already provides aid to labor surplus areas. Aid now available takes several forms, including the advisory help of the Office of Area Development. Others programs are:

**1.** *Contract Preference.* Defense Manpower Policy No. 4 of the Office of Defense Mobilization permits federal purchasing agents to set aside portions of certain contracts, at prices no higher than those paid under normal buying procedures, for procurement only in labor surplus areas. In addition to "set

*(Continued on page 71)*

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# Trends
of Nation's Business

# THE STATE OF THE NATION

**BY FELIX MORLEY**

## Free ballots depend on free markets

AT THE polls, last November, the American people voted not only to fill public offices, but also to empty public treasuries.

All the data have now been assembled by the statisticians. In the 48 states a total of 546 proposed bond issues, aggregating $2,657,042,457, was submitted to the will of the electorate. Of this sum, 92 per cent, meaning an expenditure of $2,449,289,557, was authorized by varying majorities for local public works of various kinds. This amount is almost twice the total of local expenditures approved by the voters in the 1954 election, which previously held the record for authorizations of this character.

To quote the sedate language of the Federal Reserve *Bulletin*: "In November, voters approved a record volume of capital projects to be undertaken in the future." Never before had the American taxpayers on a single day freely chosen to increase their public debt by so great a sum—almost $2.5 billion, or approximately $16 per capita for every man, woman and child in the nation.

If all the public debt were local this authorized increase, for a country as rich and populous as the United States, would still be scarcely more than a flea-bite. But $2.5 billions additional of local obligations, suddenly superimposed on a federal debt more than 100 times that large, could perhaps be more accurately compared with the last straw—assuming that the proverbial camel would ever vote to have that loaded on his own back. In any case, the 45 state legislatures now in session are without exception struggling with the not-so-simple problem of raising the funds to pay for the expenditures so lightly approved by their voters.

• • •

The need for increased local taxation is accentuated by the effect on the money market of the sizable bond issues to which the electorate has committed itself. As an example, Prince George's County, Md., having approved $4 million in November for school construction, discovered a month later that it must pay 4.28 per cent interest to raise the money. A little more than a year ago the same county sold similar bonds at a 2.79 per cent yield. The difference to be taken from local taxpayers in annual interest payments is $14,900 for each $1 million of funded debt.

Many people seem to measure educational progress in terms of buildings alone. They say that since twice as many children were born in 1956 as in 1926, to keep even, twice as many schools must be built this year. The logic forgets that the building cost of school, per cubic foot of content, is now more than four times what it was 30 years ago. Therefore, twice as many schools of the same size will cost eight times as many dollars. It is the com-

petitive demand for those dollars that forces up the interest rate.

During 1956, for the nation as a whole, yields on state and local government bonds increased by about one third. Factors other than the November authorizations contributed to this rising rate, which nevertheless has climbed most steeply since the election.

The one undebatable fact is that the voters, though they knew last November that borrowing was growing costly, decided in the face of this trend to increase debt rather than to economize. The result is an interesting lesson in the operation of free institutions, which may be summarized by saying that freedom of the market is every bit as important as freedom of the ballot.

As the present illustration shows, the two factors do not work in perfect harmony. What one seeks through the ballot is not always easily obtainable from the market. The opposite is more nearly true. Any sudden increase in demand for beefsteaks, fur coats or superhighways, is at first certain to drive up the price of these or other desirable products. Only as increased production matches or exceeds the demand for any commodity will tendency toward a declining price set in.

There have been countless attempts, in history, to repeal this inexorable law of supply and demand. We ourselves have tried, more than once, to dictate to the market without dictating to the electorate. It has never worked, and never will work. Fixed prices can be maintained indefinitely under a dictatorship, as the communists correctly claim. But the free market and the free ballot are actually two sides of the same coin. To control either one is to control the other. To eliminate either is, in the long run, to eliminate the other.

• • •

Few of us, however, either think or live with complete consistency. It is not unusual to see people in one capacity advocating measures certain to be injurious to them in another capacity. The voter who in the polling booth forgets that he is also a taxpayer is only one illustration. Another is the trade unionist willing to strike for higher wages when they are certain to increase his living costs. A most tragic case was the so-called Morgenthau Plan at the close of World War II—dismantling German industry in a manner that inevitably strengthened the hand of Soviet Russia against the United States.

In the case under consideration we see the great body of citizens freely electing to borrow an additional \$2.5 billion for unquestionably desirable facilities, such as schools and roads and hospitals. What was forgotten is that a willingness to borrow requires a complementary willingness to lend; that the supply of money is less than the demand for it, and that those with money to lend have the same right to reject a bond issue as those with votes have to authorize it.

Thus the free market exercises a certain veto power over the free ballot, somewhat as the President, if he feels it justified, may veto legislation approved by Congress. The state of Michigan, seeking to market new highway bonds with a 3.5 per cent coupon, lately found no buyers at that yield. The fact that these bonds had been duly authorized by the voters was immaterial. They were vetoed by the market, because a better yield with at least equal security could be obtained in many competitive offerings. But the market veto, like that of the President, is not final. It can always be overridden by making the security sufficiently attractive to the sovereign investor.

As there are are some who do not like the President's veto power, so there are some who resent that which the market exercises. They say that if the money for local improvements cannot be obtained locally at what they call a "fair price," then it should be provided by the federal government. The argument seems to be directed merely against the free market, but is actually designed to destroy free government on the other side of the coin.

For with a free market, exactly the same factors affect the price of Treasury bonds as govern those sponsored by the humblest county in any of the 48 states. If too much is being borrowed; if—as we may say—the production of government bonds is excessive, then the unit price will go down. In fact, as everyone knows, that price in recent months has gone down sharply, so that a Treasury bond with a 2½ per cent coupon is selling sufficiently below par to give a much higher yield.

In other words, much the same price is charged for both federal and municipal borrowing, the advantages of the former in security and marketability being offset by the tax shelter which the latter provides. To eliminate that would be to undermine our federal republic, for it is apparent that, without the tax-exempt factor, many of the localities now would have to pay not merely four, but nearer eight per cent to raise money for capital improvements.

• • •

In economics and finance, as well as in politics, our free system is kept that way by the attribute of balance. Much as the President and Congress hold each other in check, so does the free market operate to check the propensity of voters to authorize expenditures for which they do not have the wherewithal. The amount of local borrowing authorized at the last election broke all records. So it should occasion no surprise if the interest charges necessary to raise that money also rise to unprecedented heights.


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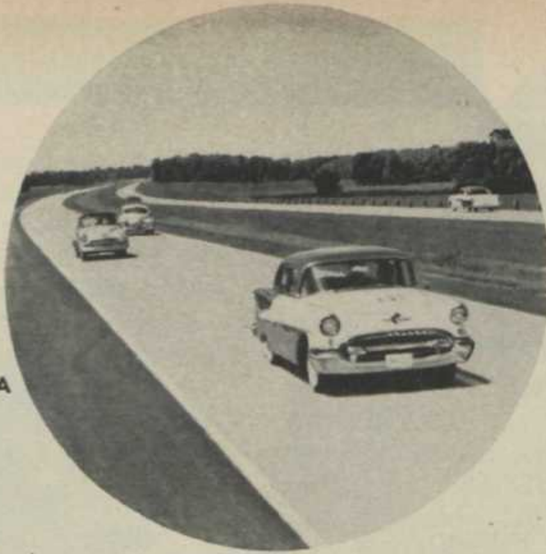
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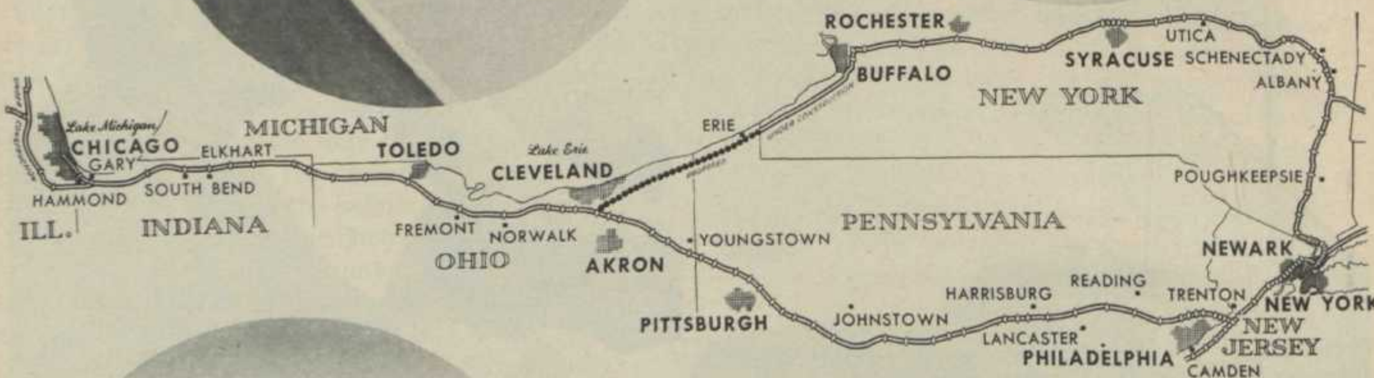


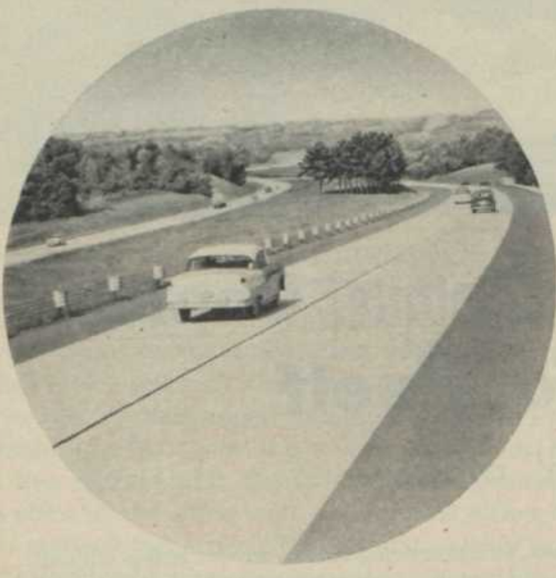
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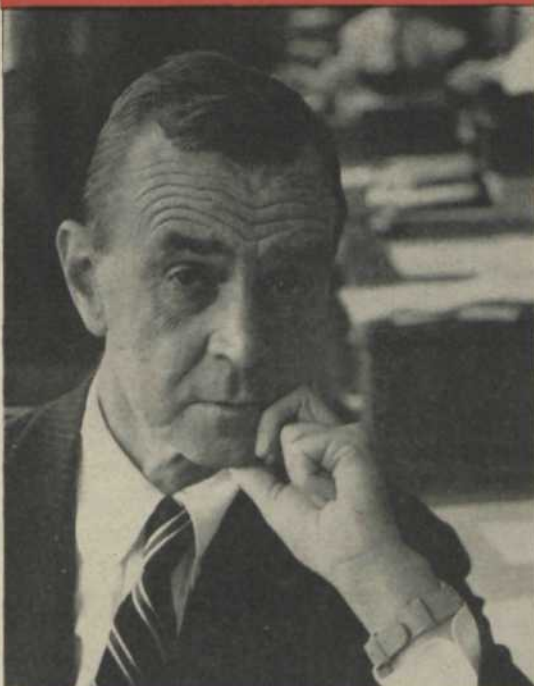

# WASHINGTON MOOD

**BY EDWARD T. FOLLIARD**

### Ike plans to prevent a new Korea

SOMETIMES it can be dangerous for a man to talk too loudly about his dislike of fighting. The danger is that others may interpret his passion for peace as a lack of courage, and so provoke a quarrel that might have been avoided by a greater show of spirit.

The same thing could be said of a nation, even a great power like the United States. Indeed, well-posted men in our government have been saying it on an off-the-record basis here in the past month. It seems that America's reputation for "pacifism" was creating a hazard in our foreign relations.

This may seem strange to the men in our armed forces, and stranger still to our 15 million or so veterans who fought in World War I, World War II, and in Korea. The fact remains that it has been an important point in the great foreign-policy debate that has been taking place in Washington.

Privately, our statesmen say that there was a grave danger that the Russians, thinking that the United States had become paralyzed by pacifism, might be tempted to launch an adventure in the Middle East. They say that this was one of the big reasons why President Eisenhower asked Congress for advance authority to fight the communists in the Middle East if it became necessary.

The Eisenhower Doctrine is really designed to head off a war; that is, the President hopes the Russians will heed the American warning and abstain from mischief in the Middle East.

He told Congress that the United States, by making it clear now that "our words will be backed by action," can best guard against a miscalculation by "ambitious despots" and "power-hungry communists" that would involve this country in military action in any case.

When the President said that the greatest danger was that the communist leaders might "miscalculate," he was really saying that the danger was that the men in the Kremlin might mistake our love of peace for craven meekness, a peace-at-any-price attitude.

How could the Russians possibly entertain such an idea? Well, for one thing, there was the violent reaction in this country when Britain and France sent troops into the Suez Canal area. Overnight these two countries, allies of long standing, became international villains in Washington; or, at least, so it seemed to them.

But that is only part of the explanation for America's reputation for pacifism. An even more important factor has been the tone of our national political campaigns. In the one that ended on Nov. 6, the word "peace" dominated nearly all of the political oratory. At one point, Adlai Stevenson complained about Republican efforts to monopolize the peace issue, saying that there was no such thing as a peace party and a war party in the United States. President Eisenhower agreed with him, and began saying in his speeches that all Americans were dedicated to peace.

• • •

Of course, there is nothing new about a political party trying to capitalize on the peace issue. An outstanding example came in the presidential campaign of 1916. Woodrow Wilson won a second term that year with the slogan "He kept us out of war," a slogan that vanished in battle smoke a short time later when the United States was plunged into World War I.

Americans have been a baffling people to the war lords of the world. Having all they want in the way of territory and natural wealth, they detest war. Yet, once committed to war, they fight with great

ferocity, skill and stamina, as Kaiser Wilhelm found out in 1917-18, and as Hitler and Tojo learned in 1941-45.

Usually, the American's hatred of war reasserts itself only after hostilities are over. The Korean war, however, was an exception. The revulsion against that far-away conflict became evident at the very height of the fighting.

Undoubtedly, that revulsion had something to do with the reputation for pacifism that America has acquired in Moscow. The Korean War was a major issue in the presidential campaign of 1952, while it still was on. Republican claims of having ended it figured again in the 1956 campaign.

Was the Korean War a mistake? Arguments on the question still are heard in Washington. Millions of Americans—probably a good-sized majority—think that it was a mistake. Or, if not that, they think the war should never have come or was not fought as it should have been once we were committed.

Former President Harry S. Truman, in an interview with me just before leaving the White House, said that his decision to fight the communists in Korea was the hardest he ever had to make—far harder than his decision to drop the A-bomb on Hiroshima and Nagasaki.

Suppose that Mr. Truman had not sent American fighting men into Korea to thwart the communist aggression. What would have been the possible consequences?

For one thing, the United Nations may have been wrecked, thereby robbing the world of a forum for settling disputes by reason rather than by the sword. For another, our ally Japan would have been flanked by communists astride the whole Korean peninsula. Finally, and perhaps most important of all, had the communists been able to get away with aggression in Korea they might have been encouraged to grab off territory in other parts of the world, thus ultimately bringing on World War III.

• • •

The Republicans almost certainly benefited in a political way from the Korean War in 1952, and again in 1956. It is worth noting, however, that both President Eisenhower and Vice President Nixon are on record as saying that Mr. Truman was right in sending the Yanks to Korea.

General Eisenhower was president of Columbia University in June, 1950, when the momentous decision was made. He told reporters that a firm stand in Korea was the best guarantee of world peace, and added:

"There was no recourse but to do what President Truman did."

Vice President Nixon has exploited the Korean War as much as any politician, and yet in a speech before the American Legion Aug. 31, 1953, he said:

"Let's recognize right now that the decision to go into Korea was right because the communists had to be stopped."

Nevertheless, when the Republicans gathered in August for their national convention in San Francisco's Cow Palace, they heard their keynoter, Gov. Arthur Langlie of Washington, refer to Korea as "a costly and fruitless" war.

• • •

President Eisenhower evidently does not agree that it was "fruitless." In asking Congress last month for authority to use American forces in the Middle East, he alluded to the sacrifices of American fighting men in Korea, and said:

"These sacrifices, by which great areas of the world have been preserved to freedom, must not be thrown away."

A President of the United States does not, of course, have to ask Congress for authority to deploy American troops in the Middle East or anywhere else in the world.

He already has the authority in his role as Commander in Chief, as Mr. Truman demonstrated in the case of Korea.

However, President Eisenhower is committed to a policy of working closely with Congress. Not only that, but he feels that joint action by the legislature and the executive is likely to carry more weight in Moscow and Cairo.

If the Russians or their puppets ignore the warning contained in the Eisenhower Doctrine, and attempt a breakthrough in the Middle East, the United States will swing into action and hit hard.

The reasons were made clear by the Chief Executive in his address to Congress. In the Middle East are two thirds of the world's known oil reserves. Should Russia take over the area, and shut off this flow of oil, it would mean (to use the President's word) "strangulation" for Britain, France and other countries in the Western Alliance. It would undo all that has been accomplished by the Marshall Plan and the North Atlantic Treaty Organization.

"All this," the President noted, "would have the most adverse, if not disastrous, effect upon our own nation's economic life and political prospects."

There are a lot of weaknesses in the Eisenhower doctrine, and critics have been busy pointing them out here and in London and Paris. It makes no provision for settling the dispute between Israel and Egypt. Neither does it promise any solution of the Suez Canal controversy. There are other defects, too, and the Administration frankly acknowledges them.

But one thing the doctrine does do—and it could be its chief purpose—and that is to warn Russia not to "miscalculate"—not to interpret America's hatred of war as an opportunity for her own aggrandizement.

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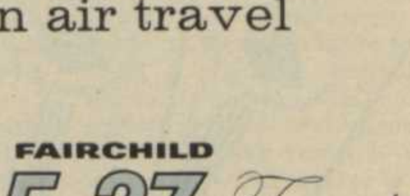

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# 5 TRENDS SHAPE BUSINESS FUTURE

BY SUMNER H. SLICHTER, *Harvard University*

## Basic changes have far-reaching implications for managers, investors, and community as a whole

OF THE many changes that are modifying the American economy, five are particularly important for investors, business managers, trade union leaders, and the community as a whole. They are:

- The growing capacity of the economy to increase production and to make technological changes.
- The growing capacity of the economy to increase the demand for goods.
- The tendency of the economy to outgrow the business cycle.
- The growth of institutions that tend to produce a slowly rising price level.
- The increasing intensity of competition.

Examination of these trends reveals the urgency of some reappraisal of our present form of business organization, pension plans, tax laws, investment opportunities, union objectives and the national political and social viewpoint.

#### *Capacity for productivity*

Certainly one of the most important facts about the economy is the steady rise in its capacity to increase production and to make innovations. Everyone, of course, knows that each year we raise productivity and make some technological advances. What has been overlooked is that the capacity to do these things has been growing.

During most of human history, technology was almost static and output per worker changed little from century to century. Only in terms of very slow changes in technology can the low per capita output as late as the Eighteenth Century be explained.

During the latter part of the Eighteenth Century productivity began to pick up. During the first half of the Nineteenth Century output per worker may have increased by as much as one per cent a year. In the latter half of the Nineteenth Century, the growth of production per manhour rose to about two per cent a year, and it continued at roughly that rate well into the Twentieth Century. Since the end of World War II, the rate seems to have been well above two per cent—though in the past 12 months temporary conditions seem to have retarded gains in productivity.

Whence comes this growing capacity to increase productivity? Two causes are particularly interesting and important. One is the rise in output per capita, which in itself is an important cause for further increases in productivity. The other is the process of technological change and expansion itself.

How does rising output per capita make possible still further gains in productivity? In the main by helping people to acquire skills. As per capita output increases, a larger and larger proportion of the population can afford to go to high school, trade school, or college. Today, the number of persons graduating from colleges and universities each year is about five times as large, relative to total population, as it was in 1900.

The processes of technological change and expansion raise the capacity of the economy to increase productivity in two principal ways:

**1.** Technological change and expansion bring into existence the kind of skills, resources, and institutions which further growth of productivity requires. They create staffs of scientists and engineers to make technological innovations; capital goods industries to make the equipment a changing technology requires; research laboratories in private industry and research firms that undertake research work on contract; and all manner of collateral institutions that facilitate growth, such as appropriate developments in the capital markets and new forms of securities and new loan arrangements to meet special problems. The new developments include financial technicians who are skilled at invent-

# 5 trends that are changing your business

## The capacity to raise production is growing

## The economy can create more demand for goods

ing the kind of financial arrangements needed to finance growth under various conditions.

**2.** Technological change and expansion create large vested interests in further technological changes and in further expansion. Technological change brings into existence an increasing number of enterprises that depend for their markets upon the rate at which technology changes and the rate at which industry buys new plant and equipment. These enterprises do not let the rate of technological change occur at whatever rate independent engineers and scientists happen to make discoveries, and they do not let the rate at which equipment is bought depend upon the rate at which users of equipment see fit to purchase it. The firms whose markets depend upon technological change and the expansion of industry attempt to accelerate the rate of innovation by hiring scientists and engineers to make discoveries and by offering users of equipment new machines that they must buy in order to remain competitive.

All of this is a fundamental change in the nature of our economy. During most of the history of the world the rate of technological change was pretty much an accident. The economic calculus was not applied to it. Today in the United States we have a large and rapidly growing new industry that may appropriately be called the industry of discovery. Its product is knowledge. The industry consists of the various laboratories and organizations that depend upon discovery for their living and that are interested in making money by raising the rate of discovery. It is now possible to estimate the costs of doing research and the chances of success with sufficient accuracy so that more or less rational decisions can be made concerning how much to spend on research.

The industry of discovery employs more than two and a half times as many research scientists and engineers as it employed 15 years ago, and it seems destined to grow rapidly for some years to come because its size today is limited, not by the number of problems that are worth studying, but by the supply of skilled personnel.

### *Increase of demand*

Although the economy has been raising productivity rapidly, at least until this past year, it has been raising the demand for goods even more rapidly. Furthermore, it has been steadily gaining in its capacity to increase the demand for goods. The growing capacity of the economy to raise the demand for goods comes in large part from the same conditions that have been raising the capacity to increase production—its growing ability to make technological discoveries and the rise in per capita incomes.

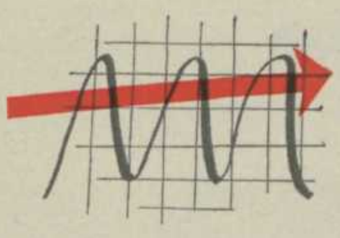
Growing capacity to make technological discoveries makes it less necessary for enterprises to take markets as they find them and helps enterprises to stimulate demand by offering consumers new and better goods or cheaper goods that they are ready to buy even at the cost of going into debt.

The growing capacity to make discoveries helps makers of equipment increase their sales by offering other enterprises improved equipment that they cannot afford to be without.

Industry's ability to increase the demand for goods is also being increased by rising per capita incomes and by rising family incomes. The growth in family incomes has been particularly rapid. Thus, between 1952 and 1956, a period in which the level of prices changed little, the proportion of families with incomes of $5,000 or more increased from 21 per cent to 35 per cent. This change was made possible in large part by the increase in multiple-worker families. Between 1952 and 1955 the proportion of married women (not widowed or divorced) in the labor force increased from 10.3 million to 11.8 million. In 1940 it was 5 million.

Rising per capita and family incomes increase the capacity of the economy to raise the demand for goods in several ways. As per capita income and family incomes increase, the proportion of income spent on necessities drops and the proportion spent to suit the whims of the individual rises. Thus, consumption becomes less stereotyped and tradition-bound. New and improved products stand a better chance of getting a share of the consumers' dollars. This is an important change because it greatly increases the rewards for successful innovation—thus stimulating innovation.

Rising per capita and family incomes improve the credit of consumers and are the foundation for the recent spectacular growth of the consumer credit industry. Consumer credit is not new, but only within the past generation has business



## We are starting to outgrow the business cycle


## Slowly rising prices likely in long run


## Competition is becoming more intense

discovered the broad scale on which it is feasible to make consumption loans. Large organizations of men skilled in making these loans have been built up, and business is constantly studying the possibility of using credit to promote the sale of new kinds of goods and services. Between 1929 and the present, consumer credit has expanded from \$7.6 billion to about \$40 billion.

The expansion of the consumer credit industry raises the capacity of the economy to increase the demand for goods. It means that expenditures on consumption depend less than ever before upon the size of personal incomes and depend, to a growing extent, upon a combination of the size of personal incomes and the willingness and ability of individuals to borrow.

### *Outgrowing the business cycle*

Many people believe that the business cycle is made inevitable by man's inability to see the future accurately or completely. Human mistakes, it is true, will produce cycles in *individual* industries, but special economic conditions and institutions are needed to produce rather general fluctuations in production. During recent years, conditions and institutions in the United States have been changing in such a way as to make the economy less and less prone to move in a cyclical fashion. Some of the changes are the result of deliberate efforts of the community to limit the fluctuations of business. These include, in part at least, the development of a flexible credit policy; laws to strengthen the banking system; a tax system which makes a large part of tax liability depend upon income so that tax liability rises and falls with incomes; unemployment compensation; and the gradual acceptance of the idea of compensatory government spending. But more important than these planned efforts to limit the business cycle are developments that have just happened —or that have at least not been intended to affect the business cycle. These include:

**1.** *The increase in the number of important industries.* Among the many industries that have grown greatly in importance in the past 30 years are the airplane industry, commercial aviation, the natural gas industry, the plastics industry, the various parts of the electronics industry, the plywood industry, the aluminum industry, the chemical industry, the pleasure boat industry, the road building industry, the air conditioning industry, the frozen foods industry, and various industries making durable consumer goods.

The growing number of industries tends to dampen the effects of any favorable or unfavorable developments upon the economy because such developments affect different industries in different degrees and at different times. The effects of inventory adjustments illustrate the point. From time to time some industries are bound to allow their inventories to become too large or too small relative to sales. In an economy of a few industries, the efforts to correct such mistakes may be quite disturbing to the entire economy. The larger the number of industries, the less disturbing to the whole economy will be the attempts of some industries to restore the best ratio between inventories and sales. For example, during the past year, the efforts of the automobile industry to reduce inventories had only limited effects on the economy as a whole.

**2.** *The growing importance of long-term planning in business management.* One of the most important developments in the rapidly changing art of management has been the growth of long-range plans based upon extensive studies of long-term trends and prospects for raw materials, technology, and markets. The formulation of long-range plans does not prevent business concerns from adjusting their investment spending to short-run ups and downs in business, but it does make business spending less sensitive to these short-run changes. Long-range planning is not new, but it has grown greatly in importance.

**3.** *The development of long-term wage contracts with built-in wage increases.* Sources within the Department of Labor estimate that about 4.3 million employes are covered by two-year or three-year, or longer contracts that call for a wage increase each year, and the number of such agreements is steadily growing. In the case of weak companies, such agreements could be deflationary in periods of recession —especially serious recession— since they could weaken the company's credit standing. In the case of strong companies, however, these new-style long-term wage agreements with their built-in wage in-

*(Continued on page 94)*

# HERE'S OUTLOOK FOR TAXES

a Nation's Business interview with

**REP. WILBUR D. MILLS**

*House Ways & Means Committee*

## Congressional expert tells you what to expect on rates, loopholes, exemptions

***What are tax prospects? Can we expect a cut or will increasing federal spending require a raise in taxes?***

I would not want us to have to increase taxes. I think present federal tax rates are too high for the long haul and that we must begin to work toward reduction. I am not certain that we would have to increase taxes in order to have a balanced budget to meet the expenditures the Congress will work out for the fiscal year which begins next July.

It is possible that our economy will continue to grow at such a pace that present tax rates will bring in the additional revenues needed for the increase in expenditures such as are proposed in the President's budget.

We should reduce taxes just as soon as the budget and economic conditions permit. We should also keep our tax laws as simple and as fair and equitable in distributing the burdens of taxation as can be done. Present taxes are extremely complicated, with provisions giving special consideration to special groups.

Our objective taxwise should be general reduction for all taxpayers. With this in mind we should refuse to permit our revenue to be diminished by special actions in piecemeal fashion.

***Is any general reduction likely this year?***

Not with the present budget prospects and economic outlook. There is a genuine need for reduction in tax rates within the foreseeable future, but we must recognize that tax reduction at the wrong time, even if it appears to be advantageous at the moment, may create economic instability that would be more damaging than any possible benefit we could conceive. Of course changes in the budget or in the economic situation would call for another look at the possibilities of tax reduction.

***Will Congress make any change in the corporate income tax rate that is due to drop from 52 per cent to 47 per cent April 1?***

I have suggested recently that the corporate normal tax rate which will automatically go downward on April 1 be extended because of the need our fiscal and economic situation presents for that revenue. I suggested a continuation of the existing rate structure for corporations.

I can't yet predict what may happen. I am sure several proposals for revising the corporate structure will be considered.

It has been proposed that the present normal tax rate of 30 per cent and the surtax rate of 22 per cent be reversed. To do that results in loss of revenue. So it has been suggested, to compensate for that loss, that perhaps a higher surtax rate might be adopted.

If you are to reduce the tax burdens of some of your corporations and bring in the same amount of money from all corporations then some must pay more taxes than they would pay under existing rates.

A drive is on to do something for small corporations taxwise, so, somewhere along the line, there might be some shift in the present rate structure. I would anticipate no over-all loss in revenue from that source. I do not believe that the problems of small business are so easily solved as some think, or that they could be corrected entirely by merely doing something with the corporate tax rate.

Only about 442,000 corporations report net taxable income out of a total of some 7.6 million businesses with net incomes.

The problems of small businesses today are not limited to those that operate in corporate form. If

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**Corporate** income taxes and excise levies will drop April 1, unless Congress extends them. The Administration and some congressmen agree there's too much inflation and too little surplus for general tax cuts.

**But pressures** are on to lighten the tax load for small businesses. The President has asked early consideration of measures giving such help with a minimum loss of revenue. Treasury Secretary Humphrey opposes any change till we see a surplus of $3 to $5 billion, then there should be a cut for everybody.

**Rep. Wilbur D. Mills,** veteran Arkansas Democrat and a recognized tax policy chief, heads the Subcommittee on Internal Revenue Taxation of the House Ways and Means Committee. His views are important to you, will have weight in the 85th Congress.

$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$$

we are to solve the problems of small business, therefore, it occurs to me that we must do more than merely try to provide some tax relief for small corporations.

***Do you feel that small business should receive special consideration in tax matters?***

Our subcommittee on tax policy of the Joint Economic Committee developed a certain amount of evidence that small businesses do not have ready access to capital to permit them to attain the same rate of growth that bigger firms enjoy. I am ready to assume that small business—proprietorship, partnership, as well as corporate form—needs additional capital for expansion. I don't know that this requires "special consideration" so much as it requires eliminating those things which hit small business harder than big business.

***What about some of the other proposals to aid small business?***

Many of the things that are suggested would make it easier for small businesses either to retain earnings or to obtain capital for expansion. I think this is a very worthwhile objective, taken by itself.

***What about the Cabinet Committee's recommendation to let business use the fast depreciation methods for used as well as new property?***

There is no question that the application of the accelerated depreciation provisions of law to used equipment would benefit small business because, as I understand it, small businesses are largely the ones that utilize used equipment. But there may be some very difficult problems in this proposal, which might require other changes in the law.

***Have you any specific tax relief program in mind for small business?***

I have not worked out any over-all solution in my own mind. I don't think that we can be sure that tax problems are the most important problems for small businesses. Nevertheless, I think the problems in this area are so great that they justify the tax-writing committees of the Congress in making a serious study, hoping to come up with something that would not be limited in its application but would tend to be of benefit to all kinds of small businesses.

***What form might that take, Mr. Mills?***

There are possibilities that have not been widely discussed that are being considered at present. But nothing is definite enough to mention yet.

***Is there a good chance for legislation this year to give some relief to small business?***

I would not predict that legislation in the interest of small business will be finally enacted this year. A tax reduction favoring small businesses would enable them to retain more of their earnings, presumably for purposes of expansion, which I think all of us would agree would be desirable. But whether or not our budget situation and economic conditions will permit us to take even that desirable step is yet to be determined. I think we have to avoid hasty or ill-considered action.

***Would tax relief for small business have a better chance than a general tax cut?***

Perhaps the chance for a reduction in tax for small business—because less revenue would be involved—might stand a better chance, but I would think that the members of Congress would desire individual tax reduction as much as they would a reduction in the rate of tax on business.

The members, of course, recognize the need of reductions in the rate of tax on individuals as well as on small businesses or even large businesses.

***What economic conditions would permit a general tax reduction?***

My thought has been that over a number of years we should operate our fiscal affairs in the black but that we should not necessarily try, *(Continued on page 104)*

# STATE SPENDING WILL RISE

That's outlook as revealed in a new survey. Heavier taxes will affect both businesses and consumers

STATE SPENDING for education, highways, public assistance and other programs will rise sharply in 1957.

To meet these increased financial responsibilities, 29 of the 45 states whose legislatures meet in 1957 are expected to impose a heavier tax burden on both businesses and consumers. The prospect:

In 12 states: increased business taxes.

In 5 states: personal income taxes probably will be raised.

In 12 states: sales taxes are likely to go up.

These trends are indicated in a special study of state legislative prospects just completed by the Chamber of Commerce of the United States. The study covered state budgets, taxes, spending for schools, highways, and prospects of legislative action in the fields of unemployment compensation, workmen's compensation, temporary disability pay, public assistance and right to work.

There is almost universal feeling that state budgets will increase in the coming year, continuing the postwar trend of progressively higher spending by the states.

In states where budgets are expected to rise but increased taxes are not anticipated, greater yield from taxes now on the books will probably provide the revenues needed to meet stepped-up commitments.

## Education

**29** states will consider increased state aid to schools. Aid would involve:

**15** states: school district reorganization

**18** construction funds

**6** greater bonding power for cities

**12** increased tax sources for cities

## Taxes

**37** states: budgets are expected to rise in 1957:

**15** expect greater yield from present taxes

*Other legislatures will consider these measures:*

**12** higher business taxes

**5** higher personal income tax

**12** higher sales taxes

## Highways

Here's how states plan to raise more funds for highways:

**18** boost highway users' tax

**10** special taxes on heavy vehicles

**9** bond issues

**21** states expect legislation for control of access for highways

11 look for legislation empowering state to reimburse utilities for cost of relocating facilities displaced by highway construction

6 expect to get authority to build highways in cities

## Labor Legislation

15 states will debate right to work issue

7 expect enactment to be pushed

8 expect pressure for repeal

18 states have right to work laws now

*Other issues expected to be hot:*

6 states: political contributions by unions

10 fair employment practice laws

7 regulation of pension and welfare funds

## Unemployment Compensation

All states have jobless pay laws. Expected new proposals include:

12 states: legislation expanding coverage

25 increased benefits

15 law to lengthen duration of benefits

9 provision for dependency benefits

## Workmen's Compensation

All states have workmen's compensation laws

16 legislatures will consider extensive revisions in workmen's compensation

22 expect effort to obtain substantial increase in benefits

## Temporary Disability

4 states—New York, New Jersey, Rhode Island and California—have temporary disability or cash sickness laws

4 additional states expect legislators to consider similar legislation

## Public Assistance

Social Security amendments of 1956 set up new formulas and new benefit maximums for federal grants-in-aid for the four public assistance programs, and a separate matching fund for medical care for those receiving public assistance

Legislation taking full advantage of the new formulas and benefit maximums to pay higher benefits is expected for Old Age Assistance in 21 states. Other proposals:

22 aid to dependent children

21 aid to the blind

21 aid to permanently and totally disabled

13 grants for public assistance medical care

# EXPERTS WHO GUIDE LABOR'S LEADERS

These five key strategists plan and direct the drives that will affect your business. Here's what you should know about them

**Organizing** drive is major AFL-CIO proj
John W. Livingston picks nonunion tar

MAJOR OBJECTIVES of the AFL-CIO in the year ahead are to:

▶Build up union strength by increasing membership through intensive organizing drives and repeal of state right-to-work laws.

▶Bargain for higher wages and fringe benefits, while demanding lower taxes, smaller profits and stable prices.

▶Influence federal, state and local legislation by seeking adoption of laws favorable to organized labor and blocking bills considered unfavorable.

▶ Improve labor's political effectiveness in preparation for next year's congressional elections and the 1960 presidential campaign.

▶ Fight for favorable application and interpretation of existing laws by government agencies and the courts.

That is the basic program of the giant federation of 138 unions and 15 milljon members. The AFL-CIO executive council was to act on this ambitious program at its regular quarterly meeting at Miami Beach, Fla., this month. Leading the fight for it will be George Meany, Walter Reuther and other well-known figures in labor. The headlines will be theirs.

But much of the strategy, planning and the ideas will originate with or be influenced by men whom the headlines seldom reach—staff men with economic, legal and public relations backgrounds who conduct the research, shape the arguments and bring in the members on which labor's program depends.

For a better understanding of labor's aims and operations, it is useful to know more about these men.

What are their backgrounds?

What has been their training?

What views do they hold and advocate?

What are they doing, and how are they doing it?

Key men inside AFL-CIO whose influence and work will have the most impact include:

John W. Livingston, who is directing big labor's drive for 26 million more members and is giving most immediate attention to unorganized workers in chemical, oil, textile, paper, wood, furniture, shoe and leather industries and to white-collar workers in all industries.

James L. McDevitt, director of the AFL-CIO political machine that sought to help elect Adlai Stevenson, and more friends to Congress.

Stanley H. Ruttenberg, whose economic views and research guide AFL-CIO economic policies and influence union bargaining demands.

Andrew J. Biemiller, former Wisconsin congressman, who is the new director of AFL-CIO lobbying activities on Capitol Hill.

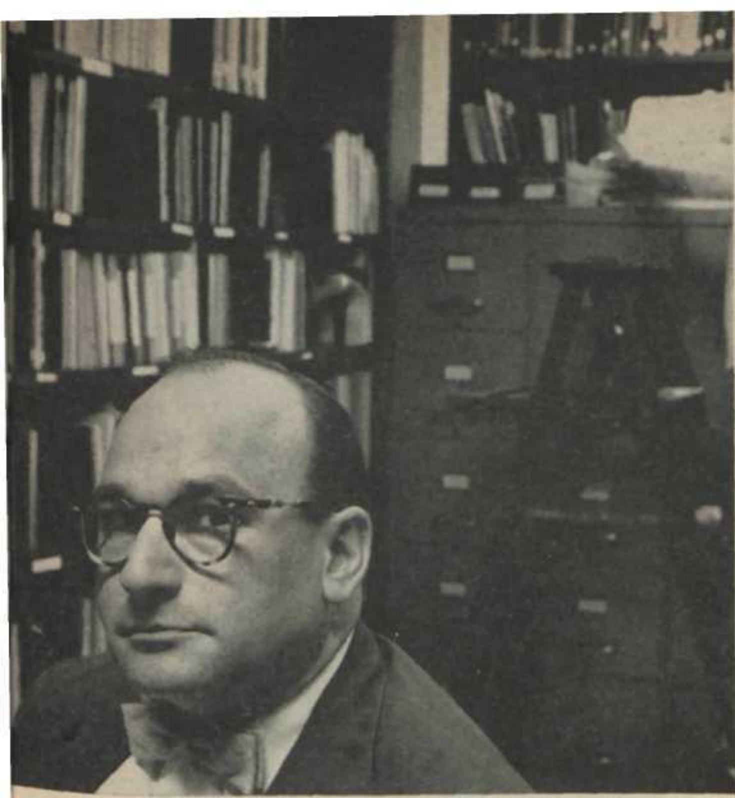
J. Albert Woll, who is retained as outside counsel to fight AFL-CIO's legal battles with the Taft-Hartley, Hobbs Anti-Racketeering, Walsh-Healey Public Contracts, minimum wage and other federal laws.

These five are by no means all of the top staff people, but they are the experts whose work is most likely to be felt by business groups.

Others should not be overlooked: Philip Pearl, directing public relations and the twice-nightly network radio news broadcasts; Henry C. Fleisher, editing the weekly *AFL-CIO News* and monthly magazine, *American Federationist;* Nelson H. Cruickshank, expert on social security matters; George T. Brown, directing participation in international affairs; John D. Connors, running educational activities, and Leo Perlis, in charge of community services.

Albert Whitehouse, a district director of the United Steelworkers' union in Cincinnati, is director of the new Industrial Union Department. This is not a staff department, like the others, but it is worth watching. Like the various trade departments from the AFL which carry over in AFL-CIO, the IUD is an internal federation of 72 unions with 7 million members, with Walter Reuther as president.

IUD concerns itself largely with the collective bargaining problems and legislative interests of the former CIO and other unions having members organized on an industrial basis. Twelve industry group committees have been organized to deal with special problems and objectives in their industries. Considerable in-



**Economic** policies are guided by Stanley H. Ruttenberg

**Lobbying** is in hands of pros like this former congressman, A. J. Biemiller

terchange of collective bargaining and other information is planned. A monthly *IUD Bulletin* has been published since April and three issues of *Quarterly Digest* have come out.

IUD will reflect mostly the influence and ideas of Mr. Reuther, which have become generally known through his activities as president of the United Automobile Workers for 10 years and as head of CIO for three years before the merger in 1955. IUD is twice as large as CIO was. You'll hear more about it.

Jack Livingston, AFL-CIO's director of organization, is a product of General Motors' Fisher Body plant in St. Louis who fought his way up in the United Automobile Workers alongside Mr. Reuther. He was a UAW vice president and director of the union's General Motors and aircraft departments when he assumed his duties after the merger.

Mr. Livingston, not yet 50, has had notable success as an organizer, although he is better known as a negotiator. In 18 months as director of a UAW region he increased the size of his jurisdiction's membership 13 times; General Motors became almost 100 per cent unionized under his leadership, and he scored heavy gains in aircraft.

Big organizing gains are the first objective of AFL-CIO. Mr. Livingston believes that the success of the AFL-CIO merger will be measured by its progress in organizing employes and, conversely, that the

*(Continued on page 110)*

PHOTOS BY ROBERT PHILLIPS—BLACK STAR

**Political** action keeps J. L. McDevitt on the go

**Legal** battles are fought by J. Albert Woll

# What interest does for you

## ► Who pays interest? Who collects it? Here are its four basic purposes


MAXIMUM employment, a continued rise in the standard of living and price stability are among our economic goals.

Of these three, until recently, we have tended to sacrifice price stability.

Efforts to change this trend by raising interest rates have raised a highly emotional issue which President Eisenhower recognized in both his State of the Union and Budget messages. In the first, he asked creation of a citizens commission to undertake an inquiry into our banking system.

Ever since the invention of money, interest has been controversial and imperfectly understood.

To some people, it represents the struggles of a hard-pressed family trying to keep a roof over its head; or the increased cost of money for building schools; or a big increase in taxes necessary to support the federal government.

To others, interest is a device for letting the market distribute the savings of the economy to those able to make the best use of those savings, or a device to permit retired families to live decently.

To still others—among them harassed government officials—it is a crude instrument for helping to stabilize a growing economy without permitting inflation

in prices. Because we are beginning to grope toward an understanding of how the economy functions, an understanding of interest is increasingly important. We need to know more certainly:

- ▶ What purpose does it serve?
- ▶ Who pays it?
- ▶ Who collects it?

Better understanding of these points will help us make best use of interest as one of the automatic stabilizers and one of the instruments which fiscal agents can use arbitrarily to help guide the country's growth.

The purposes interest serves are basically four:

It helps stabilize prices

It rations the use of savings

It channels the flow of savings

It serves as a control

Let us examine these purposes individually.

### *Stabilizing prices*

When the demand for goods and services falls below the supply, prices tend to weaken. Conversely, when the demand for goods and services outruns the supply, there is a tendency for prices to rise. If prices do not rise, some form of formal or informal rationing becomes necessary.

Correspondingly, if the demand for money and credit falls below the supply, the price—the interest rate—may fall. When the demand exceeds the supply, the price tends to rise.

If the supply of money and credit is expanded as demand rises, the price of money may not rise, but the increased availability of money and credit may then be translated into increased demand for goods and services. As long as the increased demand stays below the supply of goods and services, prices may be fairly stable. But if the demand exceeds the supply, prices are likely to rise.

Interest rates have some built-in rigidities, but they are more flexible in a free market than are the prices of most commodities. If the cost of living rises, for instance, hourly wages tend to rise—and hourly wage rates rarely drop.

As more and more fixed costs get built into the production system, reduced demand may tend to result in a reduction of production rather than of prices. Higher prices and costs tend to get built into the commodity price structure.

This is less true of the price of money. Money ordinarily would rather work for two per cent if it cannot get four per cent than not work at all.

This suggests that it is better that the price of money rise—rather than the price of goods—if there has to be a choice. If money is made freely available in a period such as the present when the demand for goods and services exceeds the supply, the additional money will not add much, if anything, to the amount of goods the economy has to distribute, but it will permit higher bidding for available goods and thus add to prices.

A rise in prices of commodities means that the value of money has dropped. This reduces the value of future money income and the value of all past savings invested in forms which call for repayment in money. Bonds, mortgages, insurance policies, pension plans, deposits in banks, etc., lose value. The average family, for instance, has a life insurance policy worth roughly $7,500. If pumping more money into the system permits prices to rise five per cent, the value of these policies is reduced about $375 per family, and the value of all life insurance policies is reduced by more than $80 billion.

On the other hand, if the supply of money and credit is not allowed to rise when the demand for goods exceeds the capacity to produce them, the price of the goods cannot rise readily because not enough additional money is available. Then the market starts bidding for the money and credit that is available. The price of money, rather than the price of goods, rises. Those who are able to pay the higher price for the money get it, and thereby get the goods the market is producing.

One cost of helping to hold a stable price level through limiting the supply of money is a rise in interest rates.

This rise in interest rates will hurt those who cannot pay the higher price. It may be that it will hurt those who want automobiles. It may hurt those who want schools, or churches.

But if more autos were to be produced, less steel would be available for other markets—possibly less steel for schools or churches. Or if more schools were built there would be less steel for factories. The market, rather than some politician or dictator, allocates the steel via the interest rate.

The institutional framework may not function well. Possibly a change in the mechanism by which money is borrowed for schools, or houses, or churches, would enable these buildings to compete better with factories or automobiles for steel. It might be better for the economy if they could compete better. But the point is they would be competing.

Something else would have to give if houses or schools got more. The problem lies in the relative effectiveness of the institutions through which the competition takes place, rather than in interest as a rationing mechanism.

Holding down interest rates would not solve the problem.

If everybody could borrow all the money he wanted without interest, people with unlimited funds would bid against each other for available goods. Prices would rise but since production could not keep up there still would not be enough goods to go around and some people would be left out.

### *Rationing the use of savings*

Decreasing interest rates in a full-employment economy, either in one sector or in all sectors, may not add to employment, but it may divert employment. If money is made available at lower rates for schools and houses, this money is taken from roads, or dams, or factories, and employment is held down in these. Political control of interest becomes a political allocation of available resources among the population. It does not increase the total supply.

The only way the standard of living can rise is for total production of goods and services to exceed their consumption and loss through depreciation, catastrophe, or other causes.

Interest is a means for allocating what has been saved to those whose willingness to pay for the savings of others indicates that they plan to use them to produce what people *(Continued on page 51)*

# Company profits where U.S. fails

Story of company once owned by Uncle Sam shows it pays to get government out of business

EVERYONE benefits when the government ceases to operate a business that is in competition with private enterprise.

That's demonstrated by the case of the Federal Barge Lines, Inc., of St. Louis, Mo., the nation's third largest inland waterway freight carrier.

Uncle Sam created the barge operation in 1918 to relieve the war-strained railroads and, after the hostilities, continued to run the line in competition with private barge interests. This situation was terminated in September, 1953, when the Eisenhower Administration sold the operation for $9 million to a group headed by Herman T. Pott, a St. Louis shipbuilder.

Some results of the sale:

- Instead of being a burden on the taxpayers (who had to make up losses of almost $10 million between 1938 and 1952, when the line operated in the red 12 out of 14 years) Federal Barge now is healthy, profit-making, and itself a taxpayer. It has paid more than $500,000 in state and local taxes. This year it will begin to pay a substantial federal income tax. In addition, it has paid the federal government $2.2 million in principal and interest under the purchase contract.
- The sale gave new, vigorous tone to competition among carriers on the inland waterways.
- The sale led to the creation of one additional new private venture, a New Orleans shipyard spun off by Federal Barge.
- Union boatmen employed by the barge company have won back their freedom of action that was lost during the period when the government was their boss —notably the right to strike.

▶ Management of the company has been freed from political control. As a result, the company has been able to introduce economies, eliminate unprofitable phases of the business and otherwise to streamline its operations.

Chester C. Thompson, who ran the barge line for the Commerce Department from 1939 through 1944, and who now heads The American Waterways Operations, Inc., describes the government's decision to sell the barge line as "an excellent undertaking." He points out that competition on the rivers was never more vigorous and praises the way Federal has been going after its share of a booming $90 million market in inland waterways freight haulage.

Capt. Donald T. Wright, publisher and editor of *The Waterways Journal*, 69-year-old St. Louis weekly business publication serving the inland waterways, says:

"Results of the first three years of private ownership have been most gratifying to all of us who had advocated an end to ownership by America's taxpayers."

Government spokesmen are equally enthusiastic about the switch.

Louis S. Rothschild, present Under Secretary of Commerce for Transportation and chairman of the advisory board for the Inland Waterways Corporation, the Commerce Department agency which managed the barge line for Uncle Sam and exists now as a mortgage holder, says:

"The operation by Federal Barge Lines, Inc., a private company, of the facilities previously operated by the federal government is proceeding in a most satisfactory manner. . . . The federal treasury is no longer subject to drain of substantial losses and the public is being given more efficient service."

To put the story of Federal Barge into proper perspective it is necessary to review the company's history.

Federal had its origin in a study by the Council of National Defense in 1917.

In the face of wartime demand for transportation to supply U.S. armed forces, the Council was charged with finding ways to make more effective use of America's rivers, where freight traffic had been in a continuing decline since the Civil War.

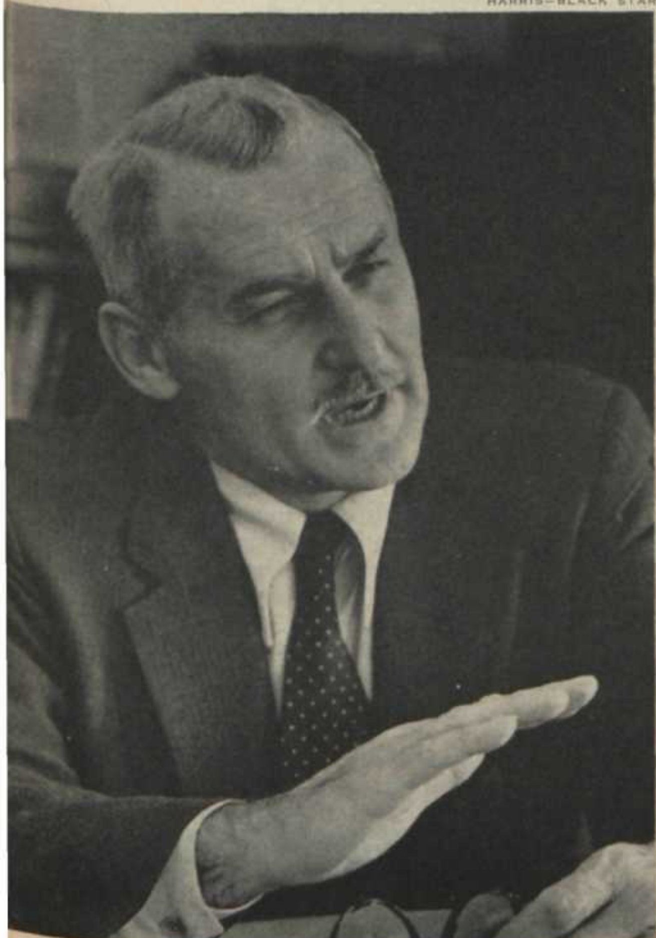
Under the federal Control Act of March 21, 1918, the Director General of Railroads commandeered privately owned floating equipment on the New York State Barge Canal and on the Mississippi and Warrior rivers. The original fleet included five towboats and 29 barges. Service began Sept. 28, 1918.

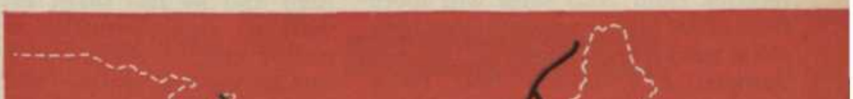
The emergency operations begun by the Railroad Administration continued to Feb. 29, 1920, when the government-owned facilities were transferred to the Secretary of War for continued operation under the terms of the Transportation Act of 1920.

On July 18, 1924, Congress created the Inland Waterways Corporation. IWC was organized for the express purpose of running the barge service. Necessary capital was obtained through the issuance of stock and the immediate purchase by the Treasury of all shares outstanding.

On July 19, 1924, Secretary of War John W. Weeks, father of Sinclair Weeks, the present Secretary of Commerce, signed an order under the Transportation Act which transferred to the newly created Inland Waterways Corporation (*Continued on page 44*)

HARRIS—BLACK STAR






Capt. A. C. Ingersoll Jr., one-time cabinboy, has built profits from Federal's 3,500 miles of operation since th 1953 sale. He sees bright future for barge business

# HOW'S BUSINESS? today's

## An authoritative report by the staff of The Chamber of Commerce of the United States

### AGRICULTURE

A further rise in farm income is in prospect for 1957, but the increase is expected to come from larger government payments. After four years of continuous decline in realized net farm income, the estimated 1956 farm income rose to $11.7 billion, a $400 million increase over the 13 year low in 1955.

Assuming a reasonably successful Soil Bank program in 1957, the U. S. Department of Agriculture expects total cash receipts from all marketings of farm products to be slightly smaller this year. Smaller receipts from crop sales will more than offset higher receipts from livestock marketings. However, the authorized $1.2 billion Soil Bank payments will more than make up the drop in total cash receipts.

On the other hand, if weather conditions are favorable, and if the Soil Bank and similar government programs fail to prevent a substantial increase in the total marketings of farm products this year, the realized net farm income may be higher for 1957. This would be likely, however, to cause greater surpluses, again depress market prices and result in a subsequent downturn in farm prices and income.

### CONSTRUCTION

Mortgage interest rates continue to be a critical item on the legislative scene.

Pressures are now being exerted for a direct lending program for GI loans using National Service Life Insurance Reserve funds as the source. These pressures are expected to continue to grow.

The objective is to find a way to keep VA rates at the below-market pegged level of 4½ per cent.

Proponents of the direct lending program are led by Representatives Patman (D-Tex.) and Rains (D-Ala.) and Senator Humphrey (D-Minn.). All have introduced bills.

Debate on the whole concept of direct lending and the proper use of NSLI reserve funds is going on in the Veterans' Affairs Committee of the House.

The National Chamber is encouraging free market interest rates and the elimination of further government activities in competition with private business.

### CREDIT & FINANCE

Borrowing has reached an all-time high and so has plant expansion, with all signs pointing to a new record rate of industrial construction in the first quarter of 1957.

Government expenditures are expected to increase considerably over 1956. State and local government spending is on the uptrend at the rate of $3 billion annually owing to demands of the road-building program, new schools and public building. Defense spending will rise.

Shipbuilding demand is expected to accelerate the steel industry for two or three years. Couple this demand for steel with a firm demand in the 1957 auto market, a slight improvement in farm machinery sales and textiles, and continued growth is the outlook.

Banks will continue to satisfy reasonable demands for credit; however, money will continue tight for some months into 1957. Consumer credit is now considered in balance, with payments to banks and finance companies equaling new contracts.

### DISTRIBUTION

Although retail, wholesale and service businessmen are viewing 1957 prospects with cautious optimism, retail sales in the first six months of 1957 are expected to run about three to five per cent higher than in the comparable period of 1956. Sales for the full year will likely pass the $200 billion mark for the first time.

Keen competition will push advertising budgets to new highs in 1957—one prediction is a 10 per cent increase over 1956.

Distribution businessmen will also face some rise in costs and prices.

Suburban growth and expansion is expected to continue in 1957 but possibly at a slower pace. Downtown modernization and improvement will be pushed vigorously.

Use of trading stamps was widespread in 1956. Continued wide use may be expected in 1957. Also expected are more detailed analyses and studies of the influence and effect of trading stamps upon costs and prices. More positive data will aid in determining the efficacy and permanancy of stamps as a major merchandising device.

Controversy over fair trade will continue.

### FOREIGN TRADE

By making its services better known to overseas traders in the U. S. through a continuing program of information and explanation, the Export-Import Bank expects to become increasingly useful to American private enterprise this year. The Bank complements rather than competes with the services offered by commercial banks.

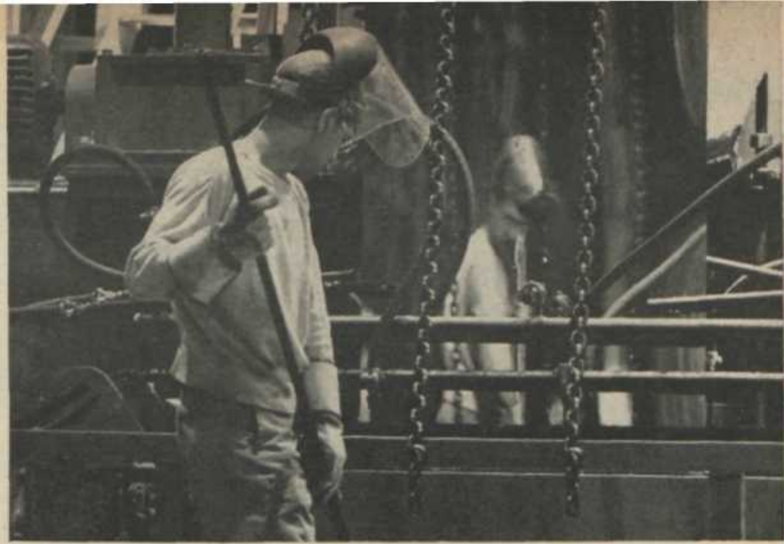
During fiscal 1956 the Bank made 156 loans totaling approximately $376 million to finance exports of U. S. equipment, commodities and services to 39 countries. Under exporter credit lines, its loans ranged from $2,700 to $6.3 million.

The Export-Import Bank reported a gross income of $84.1 million for fiscal 1956. It paid to the Treasury $23.9 million for interest on borrowed money and a dividend of $22.5 million for Treasury holdings of the Bank's stock. As of June 30, 1956, the Bank had paid to the Treasury during its 22 years' service dividends and interest totaling $317.2 million.

### GOVERNMENT SPENDING

Congress, as a result of the President's budget, now faces the largest

# outlook



peacetime spending program in history. Considerable attention is being focused on the high increase in defense spending proposed by the President. However, indications are that defense estimates will be changed somewhat as the impact of Secretary Wilson's order on roles and missions of the three services is better understood. This, plus the changed concept of Army operations, may bring about slight selective reductions in the figures submitted.

Nondefense spending is up in several areas. Increased spending for foreign aid is being scrutinized, with the House looking skeptically at the President's request. Agriculture, our third largest item in the budget, continues to grow.

Federal aid to education seems destined for early passage.

A tendency to use conservative revenue estimates seems to have been abandoned in the President's budget. These now seem more realistic —perhaps even a little optimistic. Although a surplus is now showing, don't be surprised if the *Mid-year Review* changes the picture. Much will depend upon continued expansion of the economy and continually increasing revenue yields during fiscal 1958.

## LABOR

Although organized labor no longer is asking Congress for outright repeal of the Taft-Hartley Act, in recent years the long list of changes demanded by unions has amounted to virtually the same thing. This year is likely to be no different.

Apparently two principal factions in the AFL-CIO disagree.

The building trades unions want to focus on the right to make prehire contracts with builders to use strictly union labor, the wider use of secondary boycotts, and elimination of the Taft-Hartley proviso allowing states to outlaw compulsory union membership. Failing this, they'd be happy to be exempted from Taft-Hartley altogether.

The other group, made up mostly of former CIO industrial unions, wants amendments which are generally applicable to all industry. They also have their own ideas about what Taft-Hartley changes should have priority.

## NATURAL RESOURCES

Industries dependent on water supply from open reservoirs in areas of rapid evaporation will be interested in recent experiments on cutting down evaporation losses by covering the surface of the water with a harmless monomolecular film of fatty acids or alcohols.

Experiments in Kenya, South Africa, have indicated that use of cetyl alcohol, product of the spermwhale's oil, reduces average evaporation by 50 per cent. Small pellets of the cetyl alcohol are enclosed in fine copper-mesh baskets floated on small wooden rafts. The alcohol forms a film on the surface of the water only one molecule thick. These molecules have in their molecular structure a group that is attracted to water and, therefore, the molecules stand on end, closely packed, and form a barrier to evaporation. The film is harmless, and may have an additional useful effect in preventing development of mosquito larva.

Experiments are being conducted by the U. S. Bureau of Reclamation, the State Water Survey Division of Illinois, and by Southwest Research Institute, San Antonio, Texas. Several commercial firms and municipal water works will try the method this summer.

## TAXATION

Whether or not taxes are cut in this session of Congress, members still find tax reduction proposals a fascinating subject. Of the first 500 bills introduced in the House on opening day, 118 were referred to the Ways and Means Committee and 87 of these proposed revisions of the Internal Revenue Code.

Rep. Wright Patman was in early with his version (H.R. 7) of a graduated income tax for corporations. The Jenkins-Keogh bills to provide tax deferments on private pension payments by the self-employed are again H.R. 9 and 10.

Strong pressures are rapidly developing behind the Jenkins-Keogh measures. While there is little probability of adoption this year, there will be much discussion and useful clearing out of side issues which have obscured the major problem.

High on the list of important measures are several which would create an independent commission to study our present tax system. The objective would not be another technical revision but recommendation of basic improvements in form and pattern. (See "Here's Outlook For Taxes," page 32).

## TRANSPORTATION

Business activity this year has gotten off to a good start, and the transportation increase predicted for this year is generally developing. The consensus of these predictions is that the demand for transportation, as reflected in ton-miles, will rise by approximately the same per cent as ton-miles increased in 1956 over 1955. This increase was between four and six per cent.

All media of transportation, including the nonfederally regulated elements, should participate in the increases in approximately the same degree as during the previous year: Rails up four per cent, trucks up six per cent, inland waterways and airlines up 10 per cent, oil pipe lines up 11 per cent. Due to the strike, Great Lakes carriers showed a decrease of 1.3 per cent for the year.

These predictions are based on the assumption that there will be no crippling labor disturbances, nor any developments at home or abroad which would seriously affect the American economy. Moreover, any leveling-off of the economy in the second half will establish a pattern which transportation will follow.

## COMPANY PROFITS

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all inland waterways' assets and facilities under his control. In 1939 former President Franklin D. Roosevelt transferred control of the Waterways Corporation from the Secretary of War to the Secretary of Commerce, where it remained until the 1953 sale.

The government's intention from the outset was to stimulate expansion of the inland waterways barge operations and to sell the line when this had been done and a suitable price was offered. It succeeded so well that, when Federal was sold in 1953, it was in competition on the Mississippi, Missouri, Illinois and Warrior-Tombigbee river systems with more than 150 privately owned barge companies.

Under terms of the 1953 sale the government acquired quick assets of \$2.7 million and took a mortgage on all the property and equipment of the Inland Waterways Corporation. The buyer agreed to continue substantially the same service which the line had offered under federal ownership.

The contract of sale includes default provisions enforceable if this service is not rendered. So far the government has enforced no penalties for default in service although Federal is the only barge line that accepts shipments in carload, truckload and less-than-carload quantities from small shippers—the least attractive services from an operator's standpoint.

At the time of the line's sale the company urgently needed new capital. Many of its 253 existing barges were obsolete, as were some of the 20 towboats and four tugs in its fleet.

Mr. Pott's group—he is president of the St. Louis Shipbuilding and Steel Company, of which Federal Barge is now a wholly owned subsidiary—put in \$1 million in new working capital immediately and has since followed up with a \$6 million investment in new property, including \$2.9 million for 50 barges (some equipped with movable bulkheads to accommodate less-than-bargeload shipments) and \$1.3 million for two 3,600-horsepower towboats, the *Lachlan Macleay* and its sister ship, *Missouri*.

As a subsidiary of St. Louis Ship, one of the oldest and largest barge-building enterprises on the inland waterways, Federal doesn't have to look far to find a supplier of its equipment needs.

Capt. A. C. Ingersoll, Jr., Federal's aggressive young president, explains that the multimillion dollar rehabilitation program is designed to get Federal into fighting trim for future competition for a rapidly growing volume of freight business.

Tonnage carried by Federal on the more than 3,500 miles of waterways which it serves has mounted steadily and revenues earned from this business have turned up sharply under private ownership. The company had gross revenues exceeding \$12 million in 1955, an all-time record for the line. The 1956 figures, when they are available, are expected to show slightly lower revenues because of steel scarcity and adverse operating conditions caused by low water.

Federal's revenues from water freight haulage, the biggest item by far in the line's business, were \$10.5 million in 1955. In the first three quarters of 1956 they were \$8.6 million. Previous high years for water freight revenues were 1954 (\$9.4 million), 1953, the year of change in ownership, (\$10 million) and 1952, (\$9 million). In 1946 these revenues totaled only \$4.6 million.

Federal ranks third, behind Mississippi Valley Barge and American Barge, as a tonnage carrier. Its position, as well as that of the other inland carriers, is expected to be improved by rising demand for barges in the future. This demand is already so high that Federal, in the year just ended, had to turn away orders for more than 100 bargeloads. The shortage of barges is not unlike the shortages of box cars which the nation's railroads have experienced.

Transportation activity on the inland waterways is a fairly sensitive economic indicator. This activity has been rising to new highs in recent years.

In 1955, for example, inland river carriers transported 362 million net tons, or 97.6 billion ton miles. The 1956 over-all tonnage figures are expected to run considerably higher, with a corresponding increase expected in ton miles and dollar volume of business handled.

Preliminary, unofficial estimates place 1956 barge traffic at slightly more than 100 billion ton-miles.

Most river men, including Federal's Captain Ingersoll, look for barge business to increase a minimum of four per cent per year in the years immediately ahead. The maximum estimate is 15 per cent. Assuming that the increase will be on the order of eight per cent, a compromise between the high and low estimates, this means that, by 1960, the inland carriers will be handling 532 million net tons of freight, a 47 per cent increase over 1955. Their present share of the nation's total freight load is a record 7.7 per cent—this despite the fact that the 28,996 miles of inland waterways represent less than one per cent of the mileage of the nation's transportation system.

It should be noted, in passing, that all of five major systems of freight transport—railroads, motor trucks, pipelines, Great Lakes and inland waterways—carried more freight in 1955 than in 1954 but only the inland waterways and the Great Lakes moved upward in their percentage of the total freight load.

The inland waterways registered the highest percentage gain on a ton-mile basis by adding nearly 20 per cent to their ton-mileage.

American Waterways Operators, Inc., trade association for the river carriers, reports in connection with the 1955 freighting figures that the inland waterways are barging more cargo than is being handled on the Great Lakes, by coastwise shipping or in foreign commerce at U. S. ports.

The increasing tonnage load which the inland carriers expect to handle will mean added strain on existing locks, docks and channels of the waterway system. In some places, notably the Illinois Waterway and along the lock-studded Ohio, these facilities already are overtaxed.

The Corps of Engineers, charged with maintaining and improving navigation on the inland waterways, is aware of the deficiencies and works constantly to eliminate them.

In the current fiscal year the Corps is spending \$129 million for navigation projects in the Great Lakes, inland rivers and along the three coasts of America. A fair portion of this is going into river improvements and new construction—including bank stabilization in a number of places, construction of several new dams and locks, and reconstruction of others, lock improvements, deepening of channels to accommodate deeper-draft vessels and heavier barges, and other work. In all, the Corps has \$8.5 billion in its backlog of authorized construction projects for the waterways.

It's commonplace today for barge tows to wait in line to pass through locks. That's a good indication of just how great the river traffic is. Another good indication is the growing tendency of industry when locating new plants to choose a waterside site. More than \$6 billion in new waterside plants were built along the inland waterways in 1955 and the 1956 figure, when finally computed, is expected to go at least that high with the chemical industry alone accounting for \$1.5 billion in new plant construction.

The low cost of barge transporta-

## COMPANY PROFITS

*continued*

tion is the factor which has played the most important part in luring industry to locate new facilities on waterside sites.

The economics of such a decision are compelling when you consider that a line like Federal, in one of its 20,000-ton barge tows, can move as much freight as 400 rail cars or 1,000 trucks at rates as low as one third the cost by the other means of transportation.

Federal hauls sulphur from New Orleans to plants in the north along the Mississippi; iron ore along the Warrior River to steel mills at Birmingham, Ala.; sugar from New Orleans to midland ports, phosphate rock from southern ports to north and midcentral chemical companies, coal from mines to consumer.

The contrast in rates charged by the barge lines, and those charged by rail and trucking interests, is the center of a lively controversy in the transportation industry of the nation.

Federal's view, as expressed by Captain Ingersoll, is that the inroads which the barge lines have made into rail traffic have, in the long run, proved beneficial for the railroads—and for everybody.

"Generally speaking," he says, "where barge transportation goes—up the Illinois to Chicago, up the Mississippi to Minneapolis and St. Paul, and up the Missouri to Omaha—the railroads, truck and air lines all enjoy increases in their traffic and increases in their revenues."

Capt. Ingersoll advocates closer cooperation between the rail and barge interests and his principal objective is a system of connecting lines, where rail and barge transportation could work in relays.

Capt. Ingersoll took the helm of Federal for the second time in July, 1954, a year after the government sold the line.

He had served as president of the organization before—when it was a creature of government—from 1946 to September, 1951. During this time he continually urged his superiors either to provide sufficient funds for maintenance of equipment or to sell to private interests.

Much of the company's success today must be attributed to his single-minded effort to make the operation both productive and efficient.

He started working in that direction when he took over as president in 1946 after a stint as a water transportation specialist for the U. S. Strategic Bombing Survey in World

War II and, before that, as a barge company executive, river pilot, master, towboat designer, and cabin-boy. (His father was a pioneer river man on the Ohio, Illinois and Mississippi rivers.)

Federal had fallen on lean days—in the years immediately preceding Capt. Ingersoll's assumption of the duties of president. Losses ran as high as $2.6 million a year and management of the company passed back and forth in the hands of political appointees.

Capt. Ingersoll's first move was to shuck off 21 freight terminals which the company owned but which were more a liability than an asset. As he explains it, the terminals had workers whose wages were "guaranteed"—"that is, they were getting paid for time not worked." The result was the maintenance of work crews at high pay when there was no business in the terminals for the crews to handle.

Since he believed the terminals should be locally operated private businesses anyway, Capt. Ingersoll drew up a plan to divest Federal of these far-flung port operations.

He succeeded and, after the terminals were sold in 1947, the barge line's payroll was cut drastically and the picture began to improve immediately.

"As long as the company had gone along carrying these terminals it would have been very difficult to find a buyer for it," he comments. "You didn't need a doctor's degree to see the need for such changes as the one involving the terminals," Capt. Ingersoll recalls. "It was written in letters five feet high."

Late in the 1940's, when he saw that the barge line equipment was getting dangerously obsolete and Congress was not inclined to spend an amount sufficient to give the line adequate new equipment, Capt. Ingersoll began to push hard for an early sale of the company to private enterprise.

The House Small Business Committee of the 80th Congress held public hearings in the area served by the barge line to sound out public opinion on the possible sale. It found shippers were in favor of the barge line's continuation either as a private enterprise or as a government agency, while the barge industry favored liquidation of the company and sale of its properties to existing companies.

The House committee struck a compromise, recommending that the barge line be continued until sold as a going concern to interested private parties.

Between 1948 and 1951, according to Captain Ingersoll, five different private groups showed an interest in buying the company. Each was referred to the Secretary of Commerce, but in each case negotiations were inconclusive. Then, in September, 1951, Captain Ingersoll resigned.

When Capt. Ingersoll returned to Federal for the second time he continued to make the changes he felt necessary to put the company in the best possible operating position. He reduced overhead by terminating one inefficient ship repair yard owned by the company and by selling another—now known as Saucer Marine Service, Inc., of New Orleans—to the men running it.

The barge line today has some 200 employes ashore, about 450 working in the company's rivergoing fleet of towboats, barges and tugs.

The boatmen belong to the Masters, Mates and Pilots Association, AFL, the Marine Engineers Benevolent Association, and the National Maritime Union. When their boss was the big, impersonal federal government sitting in Washington they lacked many of the rights which other organized workers take for granted—including the right to strike. Only when the barge line was sold to private interests did they regain that right.

The future looks bright to Federal Barge and, indeed to most of the major barge lines of the Mississippi River system.

One cloud on the horizon is the current low-water condition near the junction of the Mississippi River and the Illinois Waterway. This condition, caused by the worst drought since the mid-thirties, has affected some of Federal's barging operations. Serious as the situation is, it is one which a few heavy rainfalls would quickly correct.

Just as Federal pioneered modern barge navigation on the Missouri river in the '30's and '40's, the company today is pioneering technological developments in the barge industry.

Its two new towboats—the *Macleay* and the *Missouri*—are both of radically advanced design—quadruple screw and extremely shallow draft—the only two such towboats that are on the Mississippi River system.

The *Missouri* is the first big river towboat designed and equipped to burn cheap, heavy residual fuel oil rather than the more expensive marine diesel fuel used in other towboats.

With a management alert to the possibilities for continued improvements in efficiency such as these, Federal Barge can face the future with confidence. END


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## INTEREST

*continued from page 39*

indicate in the market place that they want most.

If there were no interest, everybody would want as much money as he could get and the supply would soon run out. If interest were held arbitrarily at very low rates, it would be necessary for government to ration funds. It would decide that Bill could have $10,000 at no interest or at one per cent but that Tom could have none because there wasn't enough for both.

In our free, competitive economy, individuals who have saved some of their earnings make this decision.

They can invest their money in physical things such as houses or stores, or buy equipment to set themselves up in business, or they can lend it. To whom they lend it depends on many things including security, liquidity and rate of return—that is, what is conventionally known as interest.

This search for security and for liquidity would continue even if there were no interest or if all interest rates were equally low because lenders favor those borrowers who would take best care of the money and return it when it was called for.

For this reason the federal government which can guarantee 100 per cent return, in dollar terms, and moderate to excellent liquidity for any funds it borrows, has a competitive advantage when it approaches lenders. Some state and local governments, such as New York, can borrow at even lower rates because their credit is so good and their paper is tax exempt.

Corporations, whose security is almost as great as that of the federal government or the state of New York, may also borrow at competitively low rates.

Some small would-be borrowers, on the other hand, may be able to offer good security, but are so unknown that their paper will not sell well in the market. They, therefore, have poor liquidity. This tends to penalize, among others, small governmental jurisdictions, and homeowners.

Institutional devices have been developed for improving this particular situation. Among them are the FHA and the VA. An insurance company in New England can buy a mortgage made in San Diego with relative confidence if the mortgage has been insured by the FHA or guaranteed by VA.

When interest rates are permitted to move freely, some borrowers are able to use rate of return to compensate for their deficiencies in security or liquidity. They offer to pay a higher price for the use of money. In this way interest actually helps some people to get money because, if the rate is tempting, lenders make concessions as to security and liquidity.

It is obvious that a borrower would not make an attractive offer unless he believes that people are willing to buy automobiles, air conditioners, refrigerators, clothes, or whatever he plans to make, at prices which will make it profitable for him to borrow at this price.

His willingness to pay more for money means that other users of funds—such as home builders—will have to compete with this price to get funds.

Even a free interest rate—that is, one without any government interference—is not a perfect regulator. One problem is that size and history tend to give an advantage to large and older corporations and governmental jurisdictions.

But the system is relatively impersonal. Decisions are made, even if crudely, by the market, which determines what the people want and tries to satisfy their choices.

The need to pay interest on borrowed funds reduces the number of buyers in the marketplace. People who are not able or willing to pay interest must either forego or delay purchases until they have saved sufficient money to pay cash. In either case, pressure on the supply of goods and services is relieved.

### *Channeling the flow of savings*

Interest permits the market to channel the flow of savings to the institutions and operations which demonstrate they can make the best use of the savings. Individuals who save have an opportunity to invest in savings and loan association shares, bank deposits, insurance payments, and evidences of debt such as government bonds and private stocks and bonds.

Savings and loan associations grew most rapidly of all important savings media from 1945 to 1955. Pension funds are growing most rapidly now. The demand for housing was intense after World War II. That demand has since slackened, relative to total demands. And savings are shifting elsewhere to some extent. The market is working.

The workings of the market have caused commercial banks to become more competitive. They have recently been authorized to raise their interest rates, and are going after business more aggressively. That is a sign of competition.

As interest is a device for chan-

**INTEREST** *continued*

neling savings to institutions and uses, it is of necessity a device for setting the price for the use of the savings.

***Control***

Finally, interest is used as an instrument for arbitrary control of the economy. Unfortunately such arbitrary control is necessary, because as yet there is no fully automatic method for adjusting the supply of money and credit to the needs of the economy. This is a weakness in the system. Men, rather than the market, must make decisions as to what general interest levels must be.

This dilemma could be evaded if we wanted to shift to taxes or the use of the federal debt as instruments of control. If taxes were raised promptly at the first threat of a price rise, or if the federal government shifted from short to long-term debt in a hurry, the supply of available money and credit could be, and has been, affected. But these techniques are too cumbersome and dangerous to use for control purposes, except in really serious situations.

Interest rates offer a more sensitive though far from perfect instrument for control.

Control is necessary in order that the economic system have a volume of money and credit which can expand as the economy grows. So the banking system must have powers to create money and credit. But it is important also that the expansion in the money supply should not proceed at an inflationary rate.

The Federal Reserve Board has several tools to use in supervising the total supply of money and credit. They include, among others, the Board's ability to set reserve requirements, the interest rate on savings which it permits banks subject to its jurisdiction to pay, the power to buy and sell securities, and the discount rate which it charges banks which use its facilities. All these tools depend at least in part on their effect on interest. By permitting payment of higher rates of interest at one time than another, the Board permits commercial banks to compete more freely with mutual savings banks and savings and loan associations to attract savers. By raising reserve requirements, the Board reduces the amount of money the banks may lend at interest. By selling or purchasing securities, it influences the supply of available funds. By raising discount rates, it increases the cost to the banks of obtaining funds from the system. This means that, because their own costs of money have gone up, banks must charge a higher rate. This has many implications, psychological as well as profitwise.

Other government agencies have also controlled interest rates directly or indirectly. Examples are the limits set on Veterans Administration and FHA loans, as well as the support given the price of federal bonds even when the impact of this action was inflationary.

Price control was abandoned for most commodities soon after World

*(Continued on page 56)*

## HOW INTEREST WORKS

After young Bill and Mary Summers had saved enough money for a down payment on a home, they borrowed about $10,000 from the First Federal Savings & Loan Association at four per cent. The Association got most of its money from other families in the community who were saving for retirement and for other long-range purposes. About $500 of the $10,000 came through money the First Federal had borrowed, largely, though indirectly, from insurance companies.

Of each $4 received in interest each year from Bill and Mary Summers, the First Federal paid out about $2.50 in interest. The savings of other families made it possible for Mary and Bill to get the money to buy their home. Their payments helped support retired families, and families dependent on insurance checks.

As Bill and Mary's income grew, they bought an insurance policy, and made regular payments. This meant that their savings were available so that other families, too, could own a home.

By the time they retired, the mortgage on their home was paid off, they had enough bonds in addition to their savings and loan shares and a few industrial shares, to supplement their company pension plan and to enjoy a comfortable income. Their savings were bringing them greater security. Debt and interest helped them get started, and while helping others get started they were helped again.


Cost savings made possible by an Armco Steel Building more than paid for the extra feature of the attractive front on this 40′ x 96′ display center.


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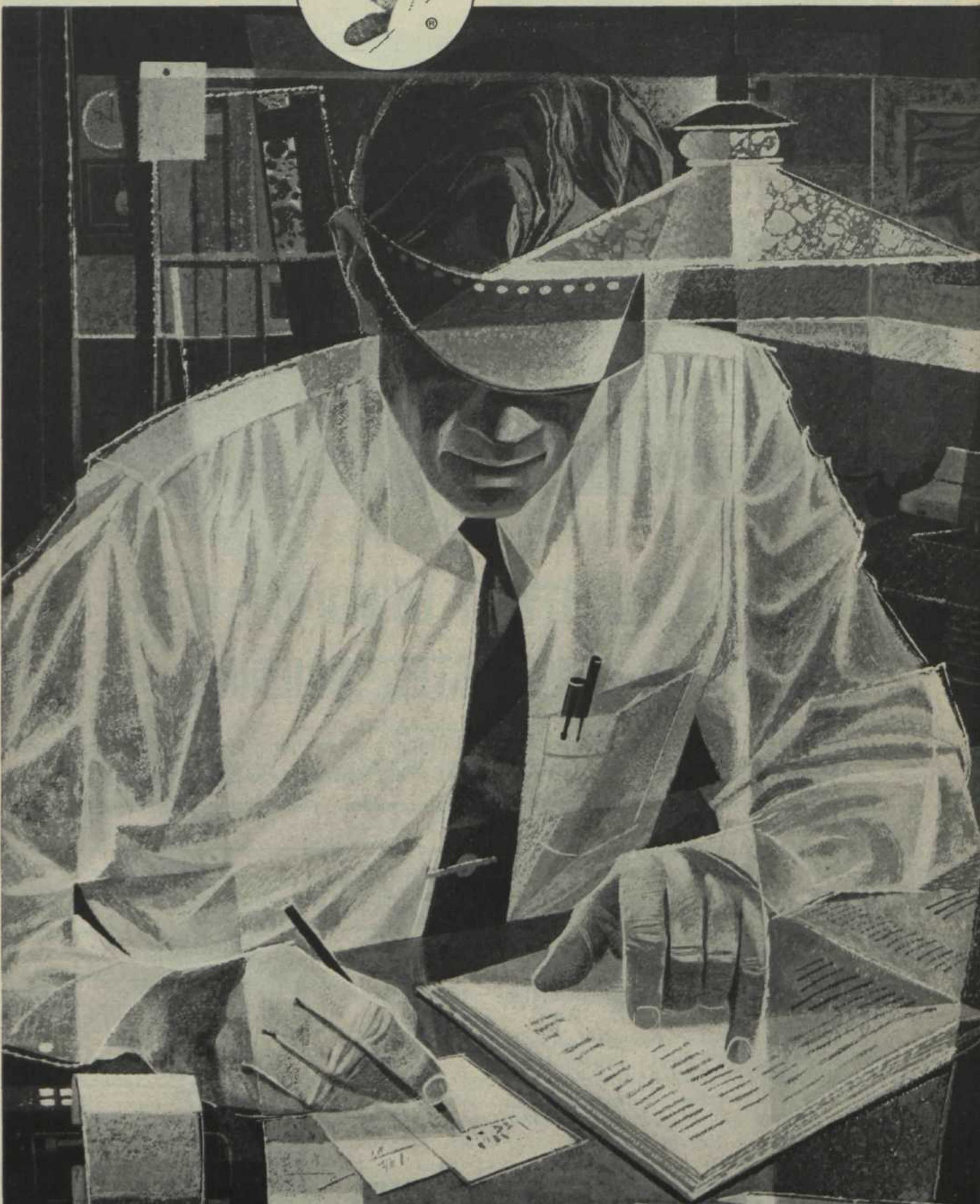

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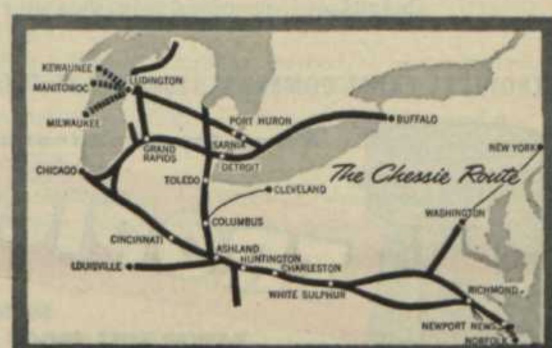

War II, but it was, in effect, maintained for money until 1951 by means of this market support for federal bonds, with quite notable effects on prices for commodities.

Interest, therefore, serves many purposes. But the cost is low. When we consider how expensive governmental regulations are and what it costs to support such work by the federal, state and local governments, a \$20.7 billion outlay in 1953 and a \$23 or \$24 billion outlay in 1956 might seem a low price to pay for an automatic allocation system which leaves us relatively free from controls by dictators.

But, this is only half the story. The \$20.7 billion paid in 1953 went right back into the financial stream.

Individuals and families, for instance, paid out \$5.7 billion and received in return \$7.1 billion. Individuals received far more in interest than they paid out in interest to other individuals or to financial institutions. So the family that saves some of its money during its working years and, after retiring, lives on the return from the money it invested has a healthy respect for interest. The \$7.1 billion flow of interest back to families is just as significant to the well-being of the populace as the \$5.7 billion which families spent in the form of interest for other people's money which they had borrowed.

In addition to the \$7.1 billion in interest that went to individuals in 1953, another \$2 billion went to incorporated and unincorporated businesses. It is necessary for any organization which has to invest appreciable sums to set aside reserves for depreciation, losses, liabilities, and other hazards or obligations. Society benefits if these reserves can be used, particularly if that can be done without sacrificing liquidity or safety. Business in general had more than \$120 billion in various accounts in 1953, a good proportion of it in obligations of the federal government. As a matter of fact, the SEC estimates that, in 1953, U. S. corporations had nearly \$23 billion of U. S. government securities or receivables. Other notes, accounts, and securities came to more than \$67 billion. The \$2 billion received for the use of these funds is a rather small charge.

Banks received \$6 billion in the form of interest in 1953. This represented interest paid on more than \$130 billion in loans. This includes \$29 billion in real estate loans, \$27 billion in commercial and industrial


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loans, \$5 billion in loans to agriculture, \$14.5 billion to consumers, including about \$11.5 billion of consumer credit. Banks paid their stockholders \$500 million in 1953; that is, the stockholders received about one per cent on the loans made. This \$500 million in general got back into the financial stream and was used to keep the economy going.

Insurance companies, including pension plans, received \$3 billion; savings and loan associations a little more than \$1 billion. Nonprofit organizations such as hospitals and schools received about \$100 million in the form of interest payments. Insurance companies paid out approximately \$17 billion in dividends and benefits in 1953. Three billion dollars was available from interest earnings to help meet this payment. Without interest it would have been necessary for premiums to be one-sixth higher or for payments to have been reduced by about 18 per cent.

Interest rates are currently higher than in 1953. This makes it possible for many insurance companies either to increase their benefits or reduce the premiums. Interest is an important part of insurance company operations, particularly life insurance company and pension fund operations. It is important to everybody who holds insurance, particularly life insurance policies. Pension funds alone probably have a current income from investments of about \$500 million a year, a sum which is not far from their current benefit payments. If interest were curtailed or eliminated, the cost of pensions like the cost of insurance would rise sharply.

Interest thus serves to support segments of the economy, such as banks and insurance companies which underwrite risks and ration money and credit for members of the economy.

The complaint that interest rates are too high for this or that purpose is often really a complaint either that there is not enough productive capacity in the economy, or that the institutional devices by which interest rates are set for particular parts of the economy are not adequate for their responsibility. The remedy then may lie in greater saving, and in further improving the institutions—as the FHA improved the residential mortgage system in the 1930's. The attack should not be against the interest system as such.

—ROBINSON NEWCOMB


"You


**Henry:** Martha. *Really!*

**Martha:** Don't "Martha Really" me!

**Henry:** This isn't like you, dear. After all, I left you with a thriving business and a secure . . .

**Martha:** Henry, did you remember to get in touch with the Man from Equitable?

**Henry:** I had a note in my pocket to call him.

**Martha:** He planned to get you, the lawyer, and the banker together to talk about a new kind of business insurance.

**Henry:** I know I wrote it down . . .

**Martha:** He wanted to show you how we would have money for inheritance taxes, without having to sell the business.

**Henry:** It was on a little piece of paper . . .

**Martha:** Well, Henry, we *didn't* have enough to pay the inheritance taxes. We had to sell the business for much less than it was worth.

**Henry:** I guess I never did call that Man from Equitable.

**Martha:** I guess you never did, Henry.

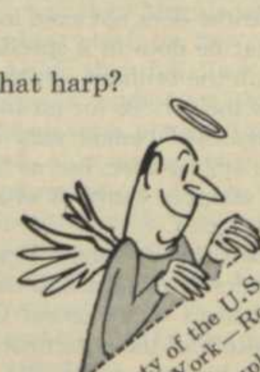
**Henry:** Terribly careless.

**Martha:** Terribly.

**Henry:** Not like me.

**Martha:** Not like you.

**Henry:** Now what did I do with that harp?



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# NEW WAY TO SPOT leaders

## Here are five basic manager types and 14 tasks which they perform

THE EXECUTIVE in a democratic society must always walk the tightrope between the consent he must win and the control he must exert.

He does this on a stage where the props always include goldfish bowl and grapevine.

In the process, many psychologists contend, his basic tendency as a person will cause him to develop into one of five basic leadership types:

- ▶ The bureaucrat who lives by the rule book.
- ▶ The autocrat, who makes his own rules.
- ▶ The diplomat or manipulator.
- ▶ The expert, more concerned with his specialty than with power.
- ▶ The quarterback or team leader.

Although business management today is accenting the quarterback type of leadership more than ever, a group of pathfinding research psychologists has concluded:

"There is no such thing as a good leader, per se."

After ten years of study of leadership qualities in business and other fields, for example, the Personnel Research Board at Ohio State University is convinced that the good leader does not exist in the abstract, but in terms of what he does in a specific situation. The army officer with the brilliant combat record may flop when he leaves the service for an industrial relations post. A distinguished banker may botch his assignment as a U. S. ambassador, just as the top machinery salesman may stumble badly as chairman of a community chest drive.

For this reason the Personnel Research Board has undertaken a different approach to executive appraisal. Since an executive's effectiveness depends quite as much on the nature of the enterprise, its purposes, its people, as upon his own skills, the Board feels that assessing leadership by compiling character traits in a vacuum is a waste of time.

It has sought to gain realistic clues to leadership by observing and appraising the relationship between the leader and his group as they work together day by day.

"In our view," says Dr. Carroll L. Shartle, engineer turned psychologist who directs the Personnel Research Board activities, "the leader is best judged in terms of what others do to obtain the results he is there to get. How does he behave in a spot where the effect of followers upon him may be as crucial as his effect upon them? They may, for example, put up roadblocks to carrying out his orders because they are hostile toward him. If he feels he is being thwarted, he may intensify antagonism by repeating the very actions which aroused their desire to frustrate him in the first place. Or they may respond affirmatively to his influence, and develop what the Navy calls a taut ship.

"There's a certain ambivalence in attitudes toward the leader," Dr. Shartle continues, "because people want to be independent and dependent, all at the same time—to assert themselves and to be told what to do."

To ensure a balanced approach for his project, Dr. Shartle recruited an "interdisciplinary" team from Ohio State faculty and graduate students in business administration, economics, sociology, engineering, psychology, with prominent businessmen and administrators acting as advisers to accent the practical.

"We had to drink a lot of coffee," remarks the PRB's ace economist, Dr. Alvin Coons, "in trying to learn each other's language. Without a common vocabulary, we knew we would lose the benefits of converging on the problem from many sides."

The PRB so far has spent nearly $1 million to detect and define leadership performance among business executives in insurance, merchandising, metals manufacture, other fields; managers of farm cooperatives; superintendents and principals of elementary and high schools, commanders of medium bomber squadrons in Korea, Japan, the United States; naval officers on destroyer and submarine duty and at Pentagon desks.

"We have come up with no quick and easy gimmicks," says Dr. Shartle. "The fact is that we are making the businessman's work harder at first so that it can be made easier later on."

He is confident that study results can be advantageously applied to improve executive selection, placement, promotion, transfer, rotation, training. Also adaptable to business management is the PRB's combination of four research tools: interviews-in-depth to determine the leader's own sense of place and purpose within the organization; observation of the leader on the job, from running a conference to dictating a letter; gathering opinions about him from associates; his own rating of his proficiency along with ratings by superiors, subordinates, peers, on a scoring scale designed

to measure both actual and ideal performance, as seen by those most concerned.

From evidence thus amassed, the PRB discovered that the executive carries out 14 or more tasks.

HE PLANS, in making decisions which shape organization objectives.

HE COORDINATES, in integrating both units and individuals.

HE EVALUATES, in gauging the soundness of policy and practice.

HE INTERPRETS, in clarifying rules and directives.

HE PREPARES PROCEDURES, in mapping new methods, revising old ones.

HE INSPECTS, installations, buildings, facilities, services.

HE CONDUCTS INVESTIGATION AND RESEARCH, in accumulating data.

HE PERSONNELIZES, in choosing and promoting employes, and in maintaining discipline and morale.

HE SUPERVISES TECHNICAL AREAS, in keeping an eye on accounting, or engineering.

HE PUBLICIZES, in fostering opinion favorable to the enterprise.

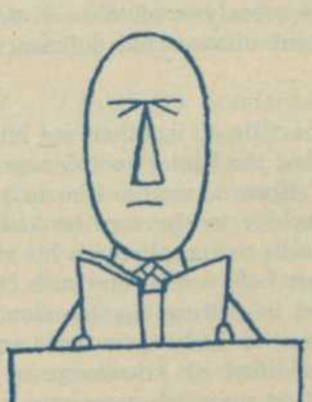
HE NEGOTIATES, in arriving at contracts, settling claims.

HE CONSULTS PROFESSIONALLY, in giving advice or aid in financial, administrative, other problems.

HE SCHEDULES, in laying out the sequence of operations.

HE EXPERTIZES, in personally discharging specialized tasks such as briefing the sales staff, checking a blueprint.

The amount of time given to any of these pursuits necessarily shifts with the position occupied. In one firm, for example, the president devoted 20 per cent of his day to public relations, the treasurer none, the office manager 1.5 per cent. By contrast, the office manager put 20 per cent of his man hours into human relations, the president six per cent, the treasurer none. But the treasurer assigned 20 per cent of his time to evaluation, the president 17 per cent, the office manager six per cent.



The Bureaucrat

The Autocrat

The executive can heighten his efficiency by breaking down his daily activity into its functional components and taking a look at them as they relate to each other. He can then see for himself if he is allocating his time as well as he should.

This should help him understand his work pattern —a concept on which the PRB places great stress.

The importance of a leader's "work pattern" is illustrated by this case history:

Mr. B, head of a thriving company of 500 employes, had five principal subordinates to whom he delegated a great deal. He also traveled considerably to maintain contacts and make speeches. Staff meetings and conferences were held regularly and dealt mainly with over-all policy on which his word was accepted pretty much as final. He allowed the staff to keep reports to a virtually irreducible minimum.

One source of conflict that sometimes broke out into sharp dispute was that Mr. B came back from his journeys with ideas which his five colleagues considered wild and which they felt they had to knock down. In other respects, aside from the frictions inevitable in any organization not dead on its feet, the six men developed a cohesive, harmonious crew. Everybody knew where he stood. The company, the smallest in a competitive field, was forging ahead.

However, Mr. B left for the presidency of another firm. The board of directors decided that none of the five subordinates was yet ready to take over the top spot, and finally picked Mr. C who enjoyed a fine reputation in the industry.

Mr. C's work pattern differs drastically from that of his predecessor. Mr. C sticks close to the office. He demands elaborate reports. He asks constantly about details. Staff meetings and conferences are held irregularly, deal mainly with day-by-day operations.

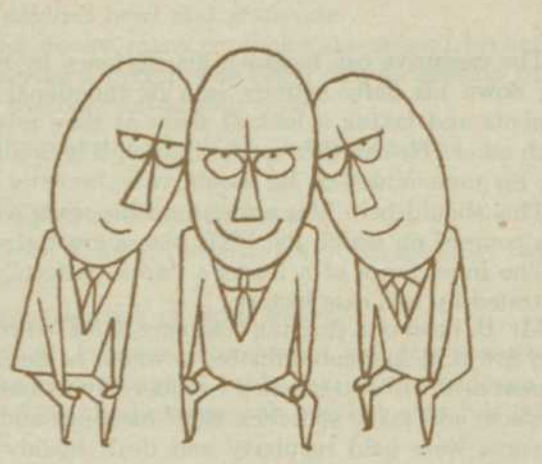
The five subordinates are restive. They feel that their responsibility and authority are being restricted, that they are, in effect, being demoted. They urge Mr. C to continue the out-of-town visits and other public relations activities Mr. B had carried out with such finesse. Mr. C concedes the need for this work; but instead of taking it on himself he rotates it among

his five aides. They complain that these absences undermine their control of their respective units, particularly since Mr. C likes to act as stand-in whenever one of them is away.

Meantime, company profits are dipping despite a superboom in the industrial sector to which it belongs.

The trouble could be that Mr. C's work pattern is the very opposite of the one to which the staff had been long committed and accustomed.

This does not imply that an executive's work pattern is so inflexible that it cannot be adjusted to the challenges of a new position, especially if its duties are dissimiliar from those previously carried out. On the other hand, every experienced executive does develop



The Quarterback

a habit cluster, a design for delivering, which he takes with him, in whole or in part, when he moves from one post to another.

If, therefore, a staff is doing well, and loses its chief, "it would be wise," says Dr. Shartle, "to consider replacing him with someone having a similar pattern. If a staff is doing badly, it might be equally wise to put in a new head, with a distinctly different pattern, even though this might bring discord and turnover among subordinates."

The Personnel Research Board staff concedes that there is much about leadership that eludes detection in the same way that nobody can explain the gift of the genuine artist. On the other hand, it affirms that many elements of leadership can be isolated and rendered into the general rules of an applied science. Toward this end it has undertaken to evaluate leadership behavior in two areas:

**1.** ***Consideration,*** or the human relations side, with its tone of mutual respect, trust, warmth between leader and group;

**2.** ***Initiating structure in interaction,*** which is academic jargon for getting the job done, with its assumption that the leader will originate, organize, keep things moving.

To measure the individual leader's proficiency in these areas the PRB has devised a descriptive scale based on 150 statements such as "He rules with an iron hand"; "He defends the group against criticism"; "He is easy to understand"; "He rejects suggestions for change"; "He shows how each job fits into the total picture"; "He never explains his actions"; "He does little things to make it pleasant for the group."

On a frequency basis of "always," "often," "occasionally," "seldom," "never," these statements are checked by the leader himself and by his subordinates.

Each respondent is then asked to set down his own measures of good leadership, using the description scale to prime the pump of his own thinking.

Broadly, subordinates will link good leadership with a low amount of domination but a high amount of direction. Bosses overwhelmingly stress the latter.

Two variations of the description scale, invoked as score card and guide, have potential practical applications for business management, according to Dr. Shartle.

Here are two examples of the way this tabulation is used:

**1.** An executive has ten subordinates who report directly to him. He is asked to describe his own capacity as leader. Five of his staff are likewise asked to portray him as they see him in the flesh. The five others picture the ideal person for his job. The discrepancies between the three portraits yield significant sign-posts for executive development if only because the executive's self-delineation is frequently closer to the ideal set forth by his subordinates than to the way he appears to them.

**2.** An intermediate supervisor, whose boss is the factory superintendent, is in charge of a crew of 15. The superintendent, the crew, the supervisor himself all describe his leadership behavior. The usual result: superior and subordinates agree to a greater extent about the supervisor than he agrees with their views of his performance. Analysis of these divergent silhouettes can pinpoint unsuspected deficiencies in group relations.

None of us sees himself as others see him, yet to the PRB the fact that the leader's self-image is often distorted justifies efforts to enable him to get it to correspond more nearly to the way he looks to others. He may then wish to comply with his staff's preferences. Or he may believe that any such change would impede progress in getting the job done. In either case, his judgment is likely to be more accurate if his self-image is modified by knowledge of the impressions he is making upon his associates.

He rarely seems to realize the incessant scrutiny to which he is subject, from below, above, at his own level. Whether he is brusque or friendly, punctual or tardy, well-groomed or rumpled, whether he has too many martinis at lunch or is a buttermilk addict, whether he is in a rut or moving along, a joiner or a nonjoiner,

The Diplomat

all are noted and talked about. They are noted and talked about with a candor that never fails to intrigue PRB observers.

A buyer, for example, will remark: "Our manager is excellent, except that he's not a self-starter. The push has to come from us. When we dump problems in his lap, he rubs his eyes and pitches in. But we think that if he were in business for himself, he'd go broke in a year."

A vice president will say: "We have a new chief here and we all think he's terrific. He's really got it. But his wife is a liability. She entertains the right people but she's socially inept. It's harmful to us because entertaining visiting firemen and the staff is one of the real duties that goes with heading up our company. The hell of it is you can offer a new boss a suggestion about the job itself, but what can you do when the trouble's with his wife?"

A department head: "We have a good man in D. But he's touchy. And he grabs all the authority he can latch onto. He runs down his associates to build himself up. I'm not sure whether we should promote him or not. On the other hand, promotion might help to relieve his tensions and make him a better member of the team."

A secretary: "I think it's wonderful for a man to love his family, I really do, but when he phones home five or six times a day about details, about the car and the furnace, there's something wrong. I'd like to see him worry that much about the problems we've got in the office; there are plenty of them."

A personnel director: "The big boss is in a tough spot. He's reached the top and he feels threatened because he sees the young blood we've brought in here preparing to take control. He doesn't want to give in to them on expansion, on being more competitive and hard-hitting. But he's waging a losing battle. At times he's practically snarling and at other times he appears to sulk. I suspect that he's put so much of himself into the job that when anything goes against him, he takes it like a personal affront—a rejection maybe—when it's only an organization decision after all."

Whatever the executive does, he will soon or late discover that "leaders are lonely people," a point of view buttressed by research recently completed by American psychologists at other universities.

They agree in essence that the leader, whether cordial or remote in manner, is destined to maintain a certain distance between himself and his followers. They also accept, to greater or less degree, the PRB emphasis upon the situation. They argue, however, that to understand the phenomenon of distance (as well as other aspects of leadership), more attention should be given to the five "basic tendency" profiles:

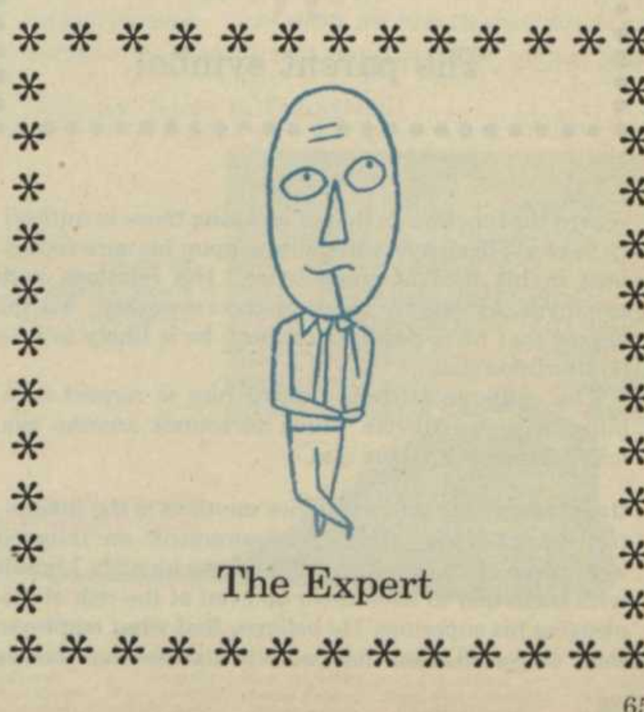
***Bureaucrat:*** They assert that the gap between executive and employes is found in its most extreme form with the regulative type of leader. His passion for personal security is equaled only by his worship of system, with its rules, charts, routines. His stance toward superiors is that of appeasement while he avoids contact with subordinates as much as possible. When he does meet with them it is on a strictly official basis. His first demand of them is loyalty to the formalistic procedures of which he is the symbol.

The employe attitude toward him is that of apathy touched with contempt.

***Autocrat:*** In the case of the directive type of leader, the distance element is substantially less. His relations with employes may be formal or informal, but they are frequent and tinged with the critical. He tends to believe that, by virtue of status, endowments, background, or any or all of these, he is a member of the elite. However, he has to keep proving it to himself by having others acknowledge it. He therefore keeps reaching out after more power and prestige in a compulsive search for reassurance. While the bureaucrat lives by the rule book, the autocrat is his own book of rules. He may be subservient to superiors but is authoritarian toward subordinates from whom he expects obedience on a "father knows best" principle.

The employe attitude toward him is that of antagonism tempered by expediency.

***Diplomat:*** The manipulative type of leader represents the distance factor in the lone-wolf sense. He is an



The Expert

# Spot leaders *continued*

opportunistic operator in his constant contacts with both superiors and subordinates. With his chess-player mentality, he regards them as objects to be moved across the board in a game of his contriving. He may lack the title of ultimate authority; yet through his insight into human motivations, he exploits the individual's aspirations and apprehensions to advance his own aims.

He delights in the process of wielding a subtle, even shadowy, influence upon developments within an organization.

The employe attitude toward him is one of distrust alloyed with grudging admiration.

***Expert:*** The consultative type of leader has a distance ratio which reflects the fact that he owes his standing to highly specialized aptitude or training. He is mostly a part-time leader, or resource person. Unlike the autocrat, or diplomat, he is less concerned with power than with his specialty such as statistics, market analysis, engineering, law, and the like. He tends to

The parent symbol

regard his function as that of assisting those in authority to reach decisions which draw upon his sure-footedness in his field of competence. His relations with employes are largely those of the co-worker. To the degree that he is genuinely expert, he is likely to be a nontraditionalist.

The employe attitude toward him is respect combined with the dislike which surrounds anyone who may change the status quo.

***Quarterback:*** Least in distance quotient is the integrative type of leader. His ego requirements are mingled with those of the group. He tends to identify himself with them and to back them up even at the risk of displeasing his superiors. He believes that what employes want above all from the leader is a sense of authentic approval; that once this feeling prevails, production, discipline, morale will all be high. His first demand of the employe is cooperation to promote the goals of the group and strengthen its *esprit* and efficiency. Since teamwork through participation is his creed, contacts and communications are close, informal, whether up or down. He is emotionally more mature, than the bureaucrat, autocrat, diplomat. Less rationalistic than the expert, he is more sensitive to the emotional needs and expectations of others.

The employe attitude toward him is one of confidence, fused with affection and a certain resentment over being guided toward more responsibility than may be desired.

Necessarily, these five classifications are neither pure nor absolute. Any type of leader at any moment may invoke the carrots and cudgels used by the other four.

Although a group composed of very submissive individuals will never be happy without a domineering task master, today's trends in education and economics are putting a premium on the quarterback with the expert running second. Some 33 per cent of all Americans of college age now attend institutions of higher learning—as against four per cent 50 years ago, and 40 per cent 15 years from now. On the whole, the greater the person's education the more intense will be his resistance to the red-tape fetishism of the bureaucrat, the arbitrary action of the autocrat, the connivings of the diplomat—a tendency magnified in a period of prosperity with its many career alternatives.

Hence, if for no other reason, business management as it seeks to attract and hold trained people is accenting this type of democratic leadership.

Concurrently, the complexity and subdivision of functions in business increasingly open up new areas for the expert as leader.

Nobody is a leader all the time, as Dr. Shartle points out. A committee, for example, may decide to build a new plant. At various stages in planning and discussion, the leader may be a metallurgist, an architect, the production manager, the treasurer as well as the president of the company.

Despite all that is said about group management, teamwork, participation and the like, the leader can never close the gap between him and his followers. If he does, he is no longer what he has to be. In the first place, he remains the parent symbol who may reward by means of praise, promotion, pay boosts or punish by denying these. In the second place, since many people prefer the shadow to the substance of responsibility, the leader has to assume it, in all its rough reality, and be willing to take the blame while sharing the credit, if only as a necessary gesture.

Above all, if he is honest with himself he knows that, as a leader, he is like everybody else, only more so—a more so that he wouldn't swap for anything else in the world. —HERBERT HARRIS

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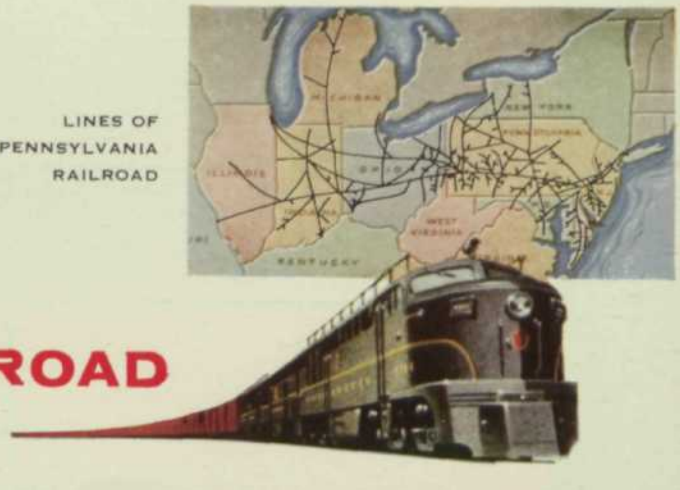

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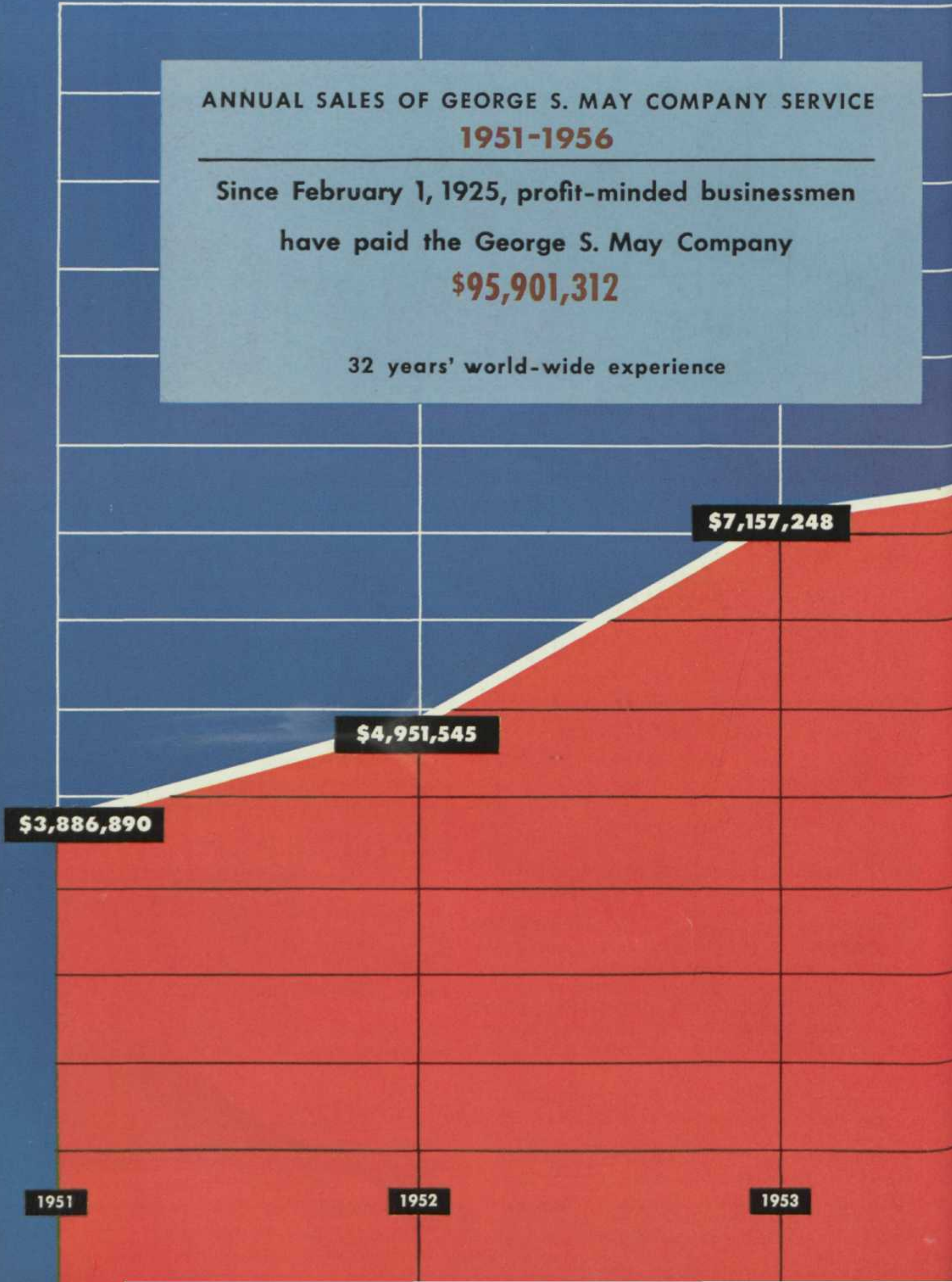
1951-1956

Since February 1, 1925, profit-minded businessmen have paid the George S. May Company

**$95,901,312**

32 years' world-wide experience



# more power...

## plus traction for every footing!

**Sock a big loader bucket** into a hard-packed pile! Feel the stepped-up power of the new International® 350 Utility tractor! See how a half-ton greater built-in weight knuckles in to give you traction for the big bites. See how big-diameter pneumatic tires provide full-load flotation . . . even on soft dirt or slick concrete.

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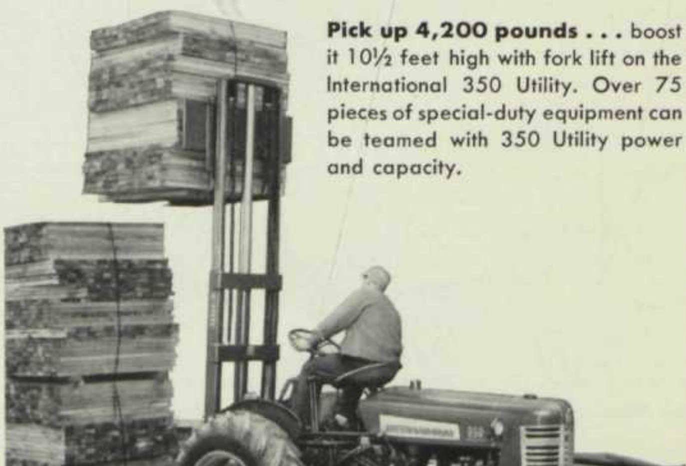
**Tough going? Don't shift!** Just pull the Torque Amplifier lever to boost pull or push-power up to 45%, *on-the-go.*

**So try it!** Call your IH dealer for a free demonstration on your job. Give him an opportunity to prove the International 350 Utility gives you extra power teamed with extra weight and stamina to outwork them all!



**Pick up 4,200 pounds . . .** boost it 10½ feet high with fork lift on the International 350 Utility. Over 75 pieces of special-duty equipment can be teamed with 350 Utility power and capacity.

SEE YOUR
**INTERNATIONAL HARVESTER** DEALER

International Harvester products pay for themselves in use—McCormick Farm Equipment, Farmall and International Tractors . . . Motor Trucks . . . Construction Equipment . . . General Office, Chicago 1, Illinois

## YOUR GROWTH

*continued from page 17*

asides," firms in labor surplus areas are awarded contracts under this policy in the event of tie bids with firms in other areas.

During the 30 months ending June, 1956, defense contracts valued at approximately $2.5 billion were awarded to firms located in areas classified by BES as areas of substantial labor surplus. Of this total, contracts amounting to nearly $48 million were placed in labor surplus areas as a result of their preferential status under Defense Manpower Policy No. 4.

**2.** *Tax Amortization Benefits.* Under this policy, firms locating or expanding defense facilities in substantial labor surplus areas are eligible for an additional allowance for rapid tax amortization above those normally given for expansion in other areas. Added allowances were certified by ODM for some 60 facilities (up to June 30, 1956) involving a total investment for buildings and equipment of nearly $224 million.

**3.** *Buy American Act Provision.* This program operates under the authority of Executive Order 10582 issued by President Eisenhower at the end of 1954 to revise and implement procurement practices under the Buy American Act.

A foreign bidder can qualify for a government contract only if his bid is at least six per cent less than the lowest domestic bid. If the low domestic bidder is located in a labor surplus area, however, this differential is raised to 12 per cent.

The opponents of federal aid, in elaborating on their contention that recovery is a local responsibility and not one which should be shouldered by taxpayers at the direction of a bureau in Washington, point to the impressive gains areas have made through local initiative.

This initiative has taken different forms. In Scranton, Pa., once thought of as a classic labor surplus area, a 10-year industrial development effort by the chamber of commerce and other groups brought new industry into Scranton and reversed the employment decline.

A smaller area, Covington-Clifton Forge, Va., hit by the conversion to diesel locomotives by the railroads and the closing of an apparel factory, came back through a vigorous chamber of commerce industrial development program.

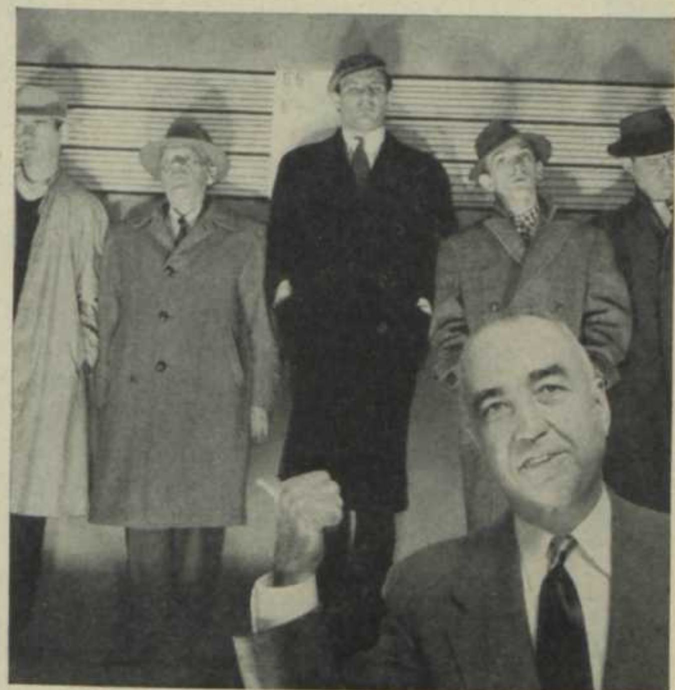
Recovery programs in numerous other communities have been equally impressive. The debate over

*(Continued on page 74)*

"NEVER LOST A SHIRT YET because Air Express carries our samples country-wide," says the President of Manhattan Shirt Co., Sylvan Geismar.


"MILLION DOLLAR MENU, possible because Air Express carries our Chinese food samples nationwide," says Jeno Paulucci, President of Chun King Sales, Inc.

"TOURNAMENT CLUBS arrive on time anywhere in the U. S. A. when sent Air Express," says Henry P. Cowen, President, MacGregor Golf Co.



"WE STOP BURGLARS, shipping parts for our alarm systems Air Express," says J. B. Rustic, General Superintendent, American District Telegraph Co.

radio-equipped trucks for pick-up and delivery — cutting time by more than *half* in many markets.

In addition, a private closed-circuit teletype service links the nation's key cities together in a single Air Express network — tied in with scores of other communities. Shipments throughout the country can be "pin-point" located and controlled all along their route!

Yet, most Air Express shipments cost less than with any other complete air service!

For a faster, surer, more far-reaching delivery system — for information and service — just call your local Railway Express Agency and ask for Air Express.

AIR EXPRESS **Air Express**

**GETS THERE FIRST** *via U.S. Scheduled Airlines*

**CALL AIR EXPRESS** . . . *division of* **RAILWAY EXPRESS AGENCY**

## YOUR GROWTH

*continued*

proposals for federal aid to depressed areas has brought one thing into sharp focus—no community, large or small, rich or poor, can evade its responsibility for maintaining a strong economic base. The rapidly growing fraternity of private area developers and industrial development counselors testifies to recognition of this need.

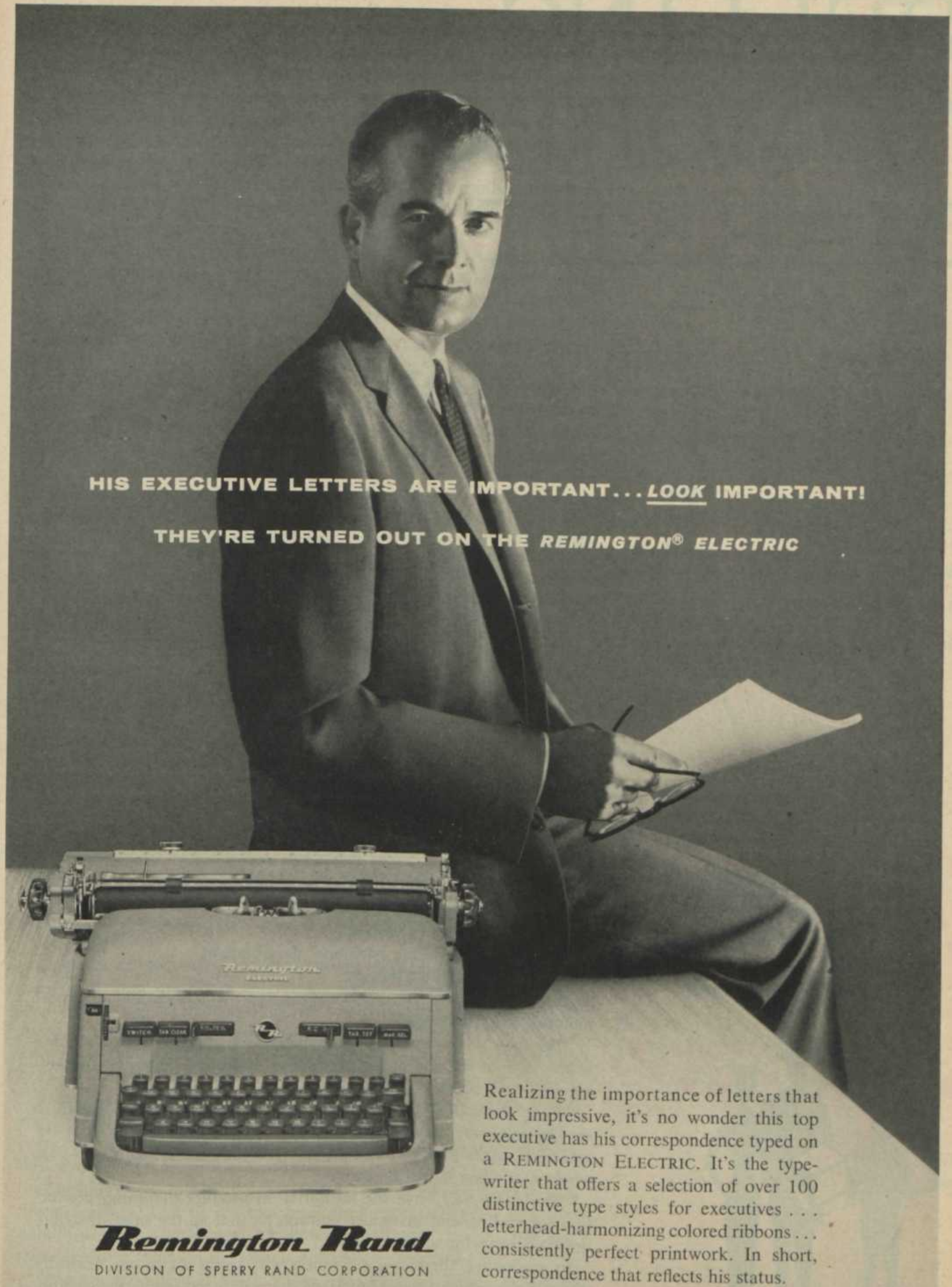
Competition among communities for new industry has become as intense as the competition in industry for technical and managerial talent. Communities must aggressively sell the advantages of their location, their labor supply, their natural resources. Such an effort is not possible unless the businessmen work through their chambers of commerce or other local agencies to maximize the attractiveness of their communiities to new industry.

Victor Roterus, director of the Office of Area Development, holds that "area development is everybody's business." He points out that some 3,000 community industrial development corporations or foundations have been formed in the United States since 1900; that 46 of the 48 states have official economic development agencies; that six states have development credit corporations providing financial assistance with private money to community groups or industrial borrowers; that nine other states have enacted legislation to provide a similar service.

The community techniques for development, Mr. Roterus points out, are varied and imaginative. Arkansas pioneered in developing the community clinic. Southern Illinois University, in the heart of a depressed coal mining region, has its community betterment workshop. Other communities have the economic base survey, which looks ahead in assessing a community's future in terms of needs and opportunities.

Of the future, Mr. Roterus concludes:

"Area development will come to be regarded as essential on the local level as the water department and the local bank. . . . There will be a greater emphasis on selective expansion of industry. . . . Programs to stimulate new product development and to open up new market possibilities for the existing firms will receive more emphasis. . . . Pools of [private] development capital will be greatly enlarged. . . . The responsibility on area developers will be a real and ever broadening one." **END**

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# SELLING TOMORROW'S MARKET

## 1. The new concept

### Here's how today's firms are focusing their efforts


BASIC approaches to selling in the American market are changing. Business is broadly applying a new point of view which begins and ends with the customer.

Manufacturing, engineering or financial departments are beginning to operate in a different framework: What is good for the customer is also good for the company.

The term commonly used to express the new concept is "*marketing.*"

It focuses company effort behind one department whose function it is to understand, motivate and reach the customers. In the new way of thinking, marketing permeates all the areas of business and must be integrated into each one.

The concept is clearly illustrated by the marketing department set up by General Electric, one of the pioneers in the movement. Under the director of marketing, GE has grouped:

Manager of marketing research
Manager of sales
Manager of advertising and sales promotion
Manager of marketing administration
Manager of product planning
Manager of marketing personnel development
Manager of product service.

Announcement of the new set-up in the company's annual report included this comment:

"The new plan introduces the marketing man at the beginning rather than at the end of the productive cycle and integrates marketing into each phase of the business.

"Thus marketing, through its studies and research, will establish for the engineer, the designer and the manufacturing man what the customer wants in a given product; what price he is willing to pay; where and when it will be wanted.

"Marketing will have the authority in product planning, production scheduling and inventory control, as well as the sales, distribution and servicing of the product."

In marketing, therefore, a business will group under one centrally directed department those functions that relate to sensing the customer's needs and wants, translating them for company action and then getting the product into his hands in the most effective way.

"It's not that this approach is so new," says C. E. St. Thomas, of GE's marketing division. "It's just that the pace toward acceptance has been accelerated. These things are now taking place at jet speeds."

Another point of view on the changed emphasis is expressed by A. A. Togesen, vice president of marketing for Bulldog Electric Products:

"Management today knows that the customer is king—that he won't buy whatever the plant produces," he said. "It knows that the king requires that his needs be satisfied in the way he wants them satisfied and when he wants them satisfied. The king will determine what and how much will be made, when it shall be made and what he will pay for it."

Along with this new emphasis on marketing and the marketing centralization of distributive facilities under one head, management is better able now to see, to manage and control the costs of getting goods into the hands of the consumer.

"There's always been this cry: 'Distribution costs too much; down with the middleman,'" says Coleman Lee Finkel, manager of the American Management Association's marketing division. "That's a lot of bunk. There's an actual money value in having a product at the right place at the right time in the right package. But it's time we dissected the marketing process to find out what this cost includes. The forward-looking companies are doing it—applying techniques previously used by accounting and manufacturing."

Actually, the change that is taking place has been forced on business by a number of complex factors; one of the most important is high production.

Production has been bursting the bounds of even the rosiest estimates with the gross national product roaring along at a remarkable new high of $413 billion. At the same time personal consumption was approximately $266 billion. Arno H. Johnson, vice president and director of research for J. Walter Thompson Company, has estimated that this will have to climb to $330 billion in the next five years if it is to keep up with production—projected at $480 billion for 1962.

Mr. Johnson estimates a gross national product of $600 billion 10 years hence, and $400 billion personal consumption.

"This means a 50 per cent increase in our standard of living," he told NATION'S BUSINESS. "It also means we must add, in 10 years, as much as we added from earliest colonial days up to World War II. In 1939 our personal consumption was only $136 billion (in terms of today's prices). It will take a real knowledge of the consumer and real emphasis on marketing by top management to succeed in this new economy."

"But the art of placing industrial goods in the hands of consumers lags more than ten years behind the industry's ability to produce goods," declares Mr. Togesen. "This is a challenge and an opportunity since the great production possibilities can't help but arouse an awareness that a revolution in marketing procedure is required to keep up with production."

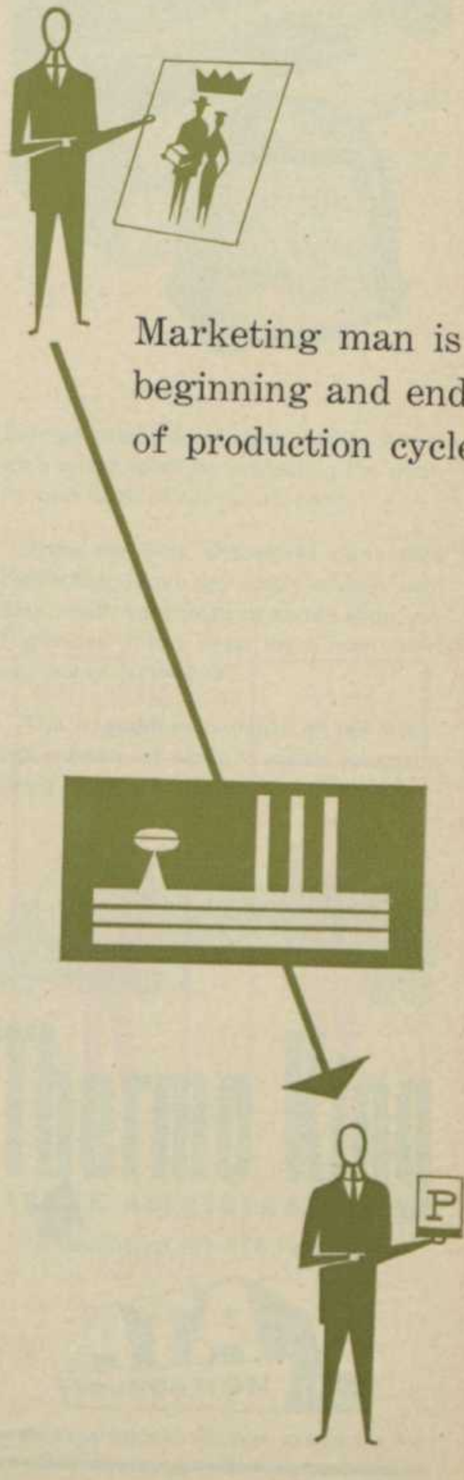
Most of the other factors forcing the changed concept of marketing come under the head of competition.

In the fight for new markets, competition is not only more intense but bewilderingly complex.

Every day new companies are moving into decentralization and diversification. This means that marketing executives must not only handle diverse geographical locations and diverse markets but distribute within them an increasing diversity of products.

"Basic competition is much wider," says Robert Elder, president of Plax, Inc., recognized as one of the more progressive of the new marketing-oriented top executives. "If you're an auto manufacturer,

Customers decide what will be made, when and how much




Marketing man is at beginning and end of production cycle

SELLING TOMORROW'S MARKET *continued*

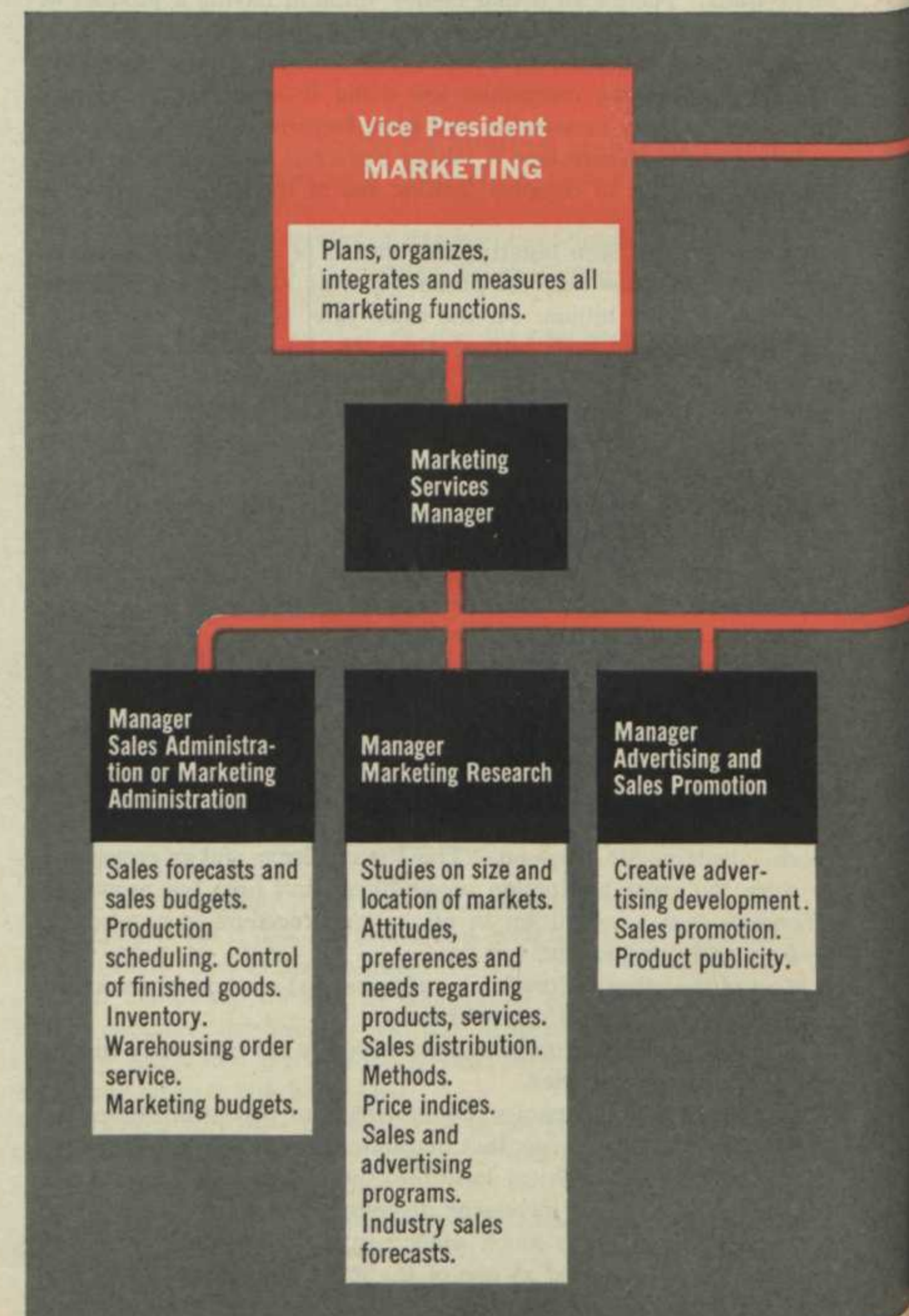
you not only have to compete with other auto manufacturers but with all the other manufacturers fighting for the discretionary dollar —that part of the consumer's income which he can spend after basic living costs—these guys being the boat manufacturer, the TV manufacturer, the home builder—you name them. Another competitor is the savings bank—some people want to put it away."

Also, interindustry competition is much more intense. Materials compete with each other in new ways. Diversified companies present united fronts. For example, Continental Can not only makes tin cans today but has bought up companies making glass, paper and plastic containers and now stands astride the whole packaging industry.

"Tomorrow's market is going to require selling in the highest sense," says Mr. Finkel. "It's no longer true that if you build a better mousetrap the world will beat a path to your door. You've got to take the mousetrap to the world."

In the old philosophy of doing business, the product might be the hunch of some topside official with enough brass or table-pounding ability to say: "This is what we will make."

Chart outlines one approach to organization for marketing concept





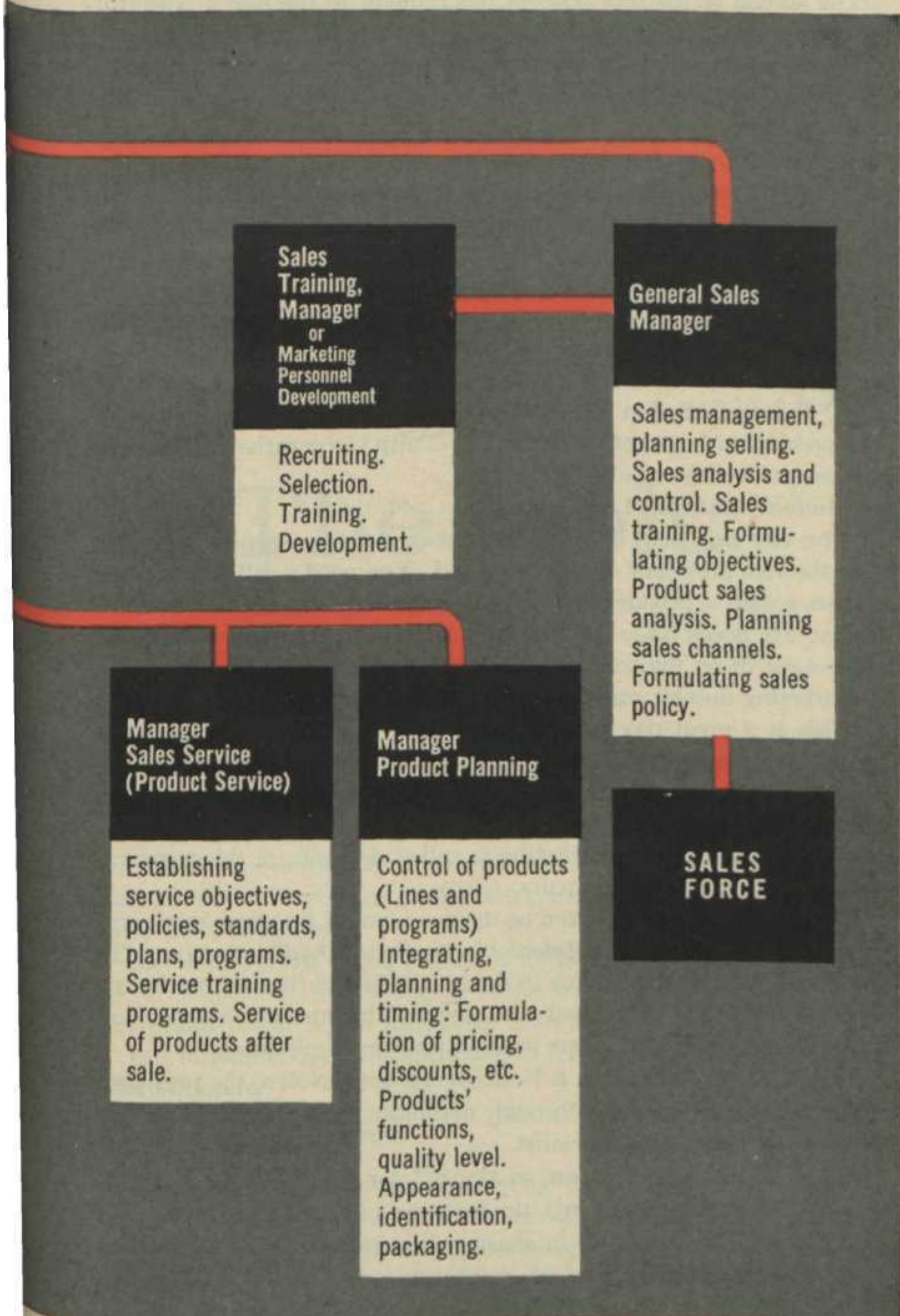
Greater range of functions requires another kind of man

Or it might come out of production. The thinking went like this: "We have the best engineers and designers; our production people are tops; they turn out the best. Then we turn it over to our salesmen and say: 'Sell it.'"

A management consultant tells of a recent case where this philosophy proved costly for a leading corporation, noted for advanced management methods but still manufacturing-minded. Some time ago, the company had a sensational product which it felt was assured of success. The company built a big plant to produce it. Now they can't keep it busy.

"If they had only found out in advance what the customer wanted," this consultant said, "the factory could have been adjusted to the job."

In striking contrast, the Raytheon Company brought out an item last year that was practically designed by the customer. Alert marketing officials saw a growth market in small boating—where ownership is increasing 20 per cent a year—and thought there might be fertile ground for a low-priced depth sounder adapted from the sonar which



## SELLING TOMORROW'S MARKET *continued*

Raytheon Company queried boat owners on a new product

Boatmen wrote back ideas on performance, size, color, cost

Resulting depth sounder for small boats was smash hit

the company has been making for the U. S. Navy for the detection of enemy submarines.

Preliminary marketing research tests indicated that they had hold of a hot wire. Then the company sent a 31-part questionnaire to 5,000 owners of small boats—more than 27 feet long—with an invitation which read: "Please help us design a product for your use."

"These fellows must have been just sitting around waiting for someone to ask that question," says Daniel Webster, Marketing Manager for Raytheon's Commercial Equipment Division, "and, oh boy, did they tell us."

In a record high return, the questionees specified what boat owners were looking for in terms of size, color, what they wanted it to do and what they'd be willing to pay for it.

As a result, the company brought out a small, black-and-gray depth sounder priced at $149.50 and backed with a low-priced service guarantee—to overcome fears of costly maintenance.

The product was a smash hit. Raytheon couldn't make depth sounders fast enough to satisfy the demand and they are expected to sell even better on this year's boat market.

The spread of the new concept has brought to the fore a powerful new figure in American business today—the marketing director.

In many companies the sales manager—whatever his title—came to be charged with an increasing burden of marketing responsibilities until he was bursting at the seams. A growing tendency in companies today is to free him of these responsibilities and leave him free for the motivation and direction of salesmen. Sometimes the sales manager is elevated to a new post of director of marketing with a sales manager reporting to him.

This director of marketing has many titles, but the increasing tendency is to make him the vice president of marketing.

"People ask me, 'What's all this excitement these days about having a vice president of marketing instead of a vice president of sales?' " remarked Fen Doscher, who has the newly created title of vice president of marketing in the Lily-Tulip Corporation. " 'Is there any essential difference?'

" 'Indeed there is,' I tell them.

"The vice president of marketing has a greater range of functions than the vice president of sales ever had. You need a different caliber of man, a man of broader knowledge, a man with better administrative ability. He needs basic training from within the company. He needs to have sat in on the company's policy-planning. The vice president of marketing doesn't run production but he has a lot to say about it.

"This is a great day for sales—or rather marketing, in the sense I'm talking about it. The men who've been doing these things have been struggling for years to get into this position—so production wouldn't always be writing the ticket."

What the director of marketing is called depends on the organization of any particular company.

"In some cases, he may even be the president of the company," says Eugene B. Mapel, vice president of Barrington Associates, Inc. "In any event, he is the sparkplug in the integration of the new marketing concept. He is the individual who says: "The customer's needs and wants will be reflected in our product and profit planning."

In the case of McKesson & Robbins, Herman Nolen, the president of the company, came up through marketing and considers himself primarily a marketing specialist.

"They didn't just happen to do it," he said. "It is symbolic that of the last four presidents, the first was a finance man, the second was a buyer, the third was in charge of operations and the fourth—that's Nolen—came up through marketing.

"The man who will sell in tomorrow's market is not just a sales-

man," says Mr. Nolen, "not just a man who is pushing a product, building up sales volume. He has to know automation and what it means to the company. He must be sales minded but he must be more than this; he must be manufacturing minded. He has to know pricing, business cycles. He has to be a social scientist—understand motivation. But always he has to know the new techniques in selling.

"The new vice president of marketing is expected to plan in terms of the profitability of the business, even including such factors as product planning, development, manufacturing and finance—in other words, everything involved in the investment in a new product, according to the most advanced school of thought.

"The final standard on which results are judged is return on the investment," says Carl Hoffman, director of McKinsey and Company, management consultants. "The guy who sat in the spot now occupied by the vice president of marketing used to ask himself: 'How can I sell more stuff?' His prices were set by the comptroller of the company.

"Today, he starts with the idea: 'We're employing so many millions of dollars worth of capital in this operation. Let's start with the thinking that we're expecting exactly such and such a return on the investment.'

"Then he may see that he can gain by lowering his price a little, or by changing the product, or by giving a different discount to the dealers. He'll ask, 'Do we have the plant capacity? If not, how much will it cost to build?'

"In the past, he might have thought, 'This will double sales.'

"Now he thinks, 'What is this going to mean in terms of return on the investment?'

"This is the kick-off point. More and more companies are thinking in these terms and looking to the chief marketing executive to think and plan in these terms."

# 2. The tools

## New ways to measure effort and make it more effective

Approaches to making the marketing concept effective can take many forms. The important thing is acceptance of the point of view and the philosophy. With the acceptance of a marketing approach—and the counterpart that generally accompanies it: a more critical examination of each part of the marketing process—many new tools have been developed.

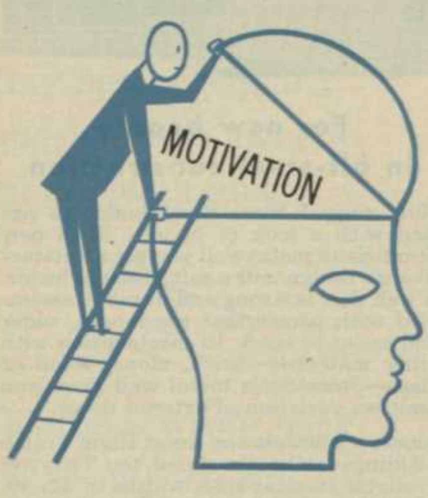
Increasingly, the marketing chief looks to more precise measuring tools to apply to his operation—tools like the electronic computer, operations research and integrated data processing.

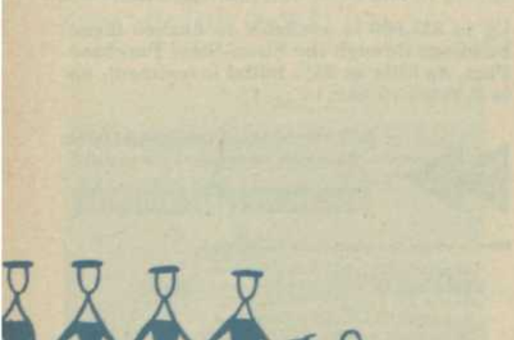
But fundamentally, the springboard for the change is the organization structure.

### *Marketing research*

The research arm of the marketing department is becoming increasingly important. It provides an objective, factual and logical presentation of the marketing material related to the analysis of any marketing problem. This arm is known as market*ing* research and it is not to be confused with market research, one of the major areas





8,000 customers helped Norge design new kitchen range

*under* marketing research. Some of the functions that fall in the broad, general category of market*ing* research are:

**1 MARKET RESEARCH**

Studies to answer the questions:
a. "Where is the market?"
b. "How large is the market?"
c. "What are its distinguishing characteristics?"
Studies to determine trends in:
a. market size
b. market profitability.
c. territorial potentials.

**2 PRODUCT RESEARCH**

Packaging
Use studies
New product acceptance
Customer dissatisfactions
Pretesting on small or specialized markets

**3 RESEARCH ON POLICY AND SELLING METHODS**

Analyses of:
a. salesmen's effectiveness
b. sales competition
c. optimum advertising media
Price studies
Distribution studies
a. Warehouses
b. Branch sales offices

## Motivation research

This is one of the major tools which the marketing research man is using increasingly. It attempts to find out why the customer buys.

For an example, a comprehensive survey was made by Norge to find out what designs were wanted in their kitchen ranges. When the company made a preliminary study, housewives indignantly protested that they didn't like the existing ranges because the surface unit burners were too close together and the ovens were too narrow and too deep.

Forums were set up in stores in nine cities and customers were invited to come in and help design a new range from models on display. More than 8,000 persons accepted. Consensus:

The housewife wants burners arranged so she can use each burner for a particular kind of cooking: left-rear for boiling, stewing and simmering perhaps; left-front for the things she has to stir; right-rear for hot beverages; and right-front for frying.

But the housewife considers an oven more important. She wants her oven wider and shallower for convenience in reaching. Also, she doesn't want her oven too high or too low but likes a sloping, beveled edge with a window so she can see into it.

The Heil Company, of Milwaukee, had been making stainless steel tanks for large dairy and other trucks. It decided to invade the refrigerated plastics body field with its "Frigid-van," a one-piece molded truck body. A two-year research program was set up and the company mailed questionnaires to 1,500 meat packers and 1,500 dairies.

It asked what sizes, styles and refinements would meet with greatest approval. It also sought measurement of the potential market, investigated objections to metal bodies and sought to learn about the competition as well as about customers' buying habits.

The two-year marketing research project not only helped company engineers design the kind of a one-piece molded truck body the

customers wanted but it alerted the sales and advertising staffs to the market potential and the goals they could expect to reach. Moreover, it provided them with a reservoir of valuable information for their engineers, designers, advertising men, salesmen and management to use in planning sales during the coming years.

Sometimes a survey radically changes the market. Revell, Inc., manufacturers of plastic hobby kits, originally assumed that its product was only being bought by youngsters for youngsters. However, a market survey showed them that only a third were bought by boys *for* boys, one third were bought by adults for youngsters and one third by the adults *for adults*. As a result, the company has gone more heavily into the adult market, making kits more complicated.

Surveys take many forms other than the ordinary questionnaire. In one type, the interviewer shows a picture—say of a man and a woman looking into a show window at a new automobile.

Question: What are they talking about?

Experienced testers are able to read the testee's attitude from the answer. If he says "high horsepower," maybe he's worried because the new cars are getting too powerful and dangerous to drive.

If he says, "They're talking about the price," perhaps he thinks the new cars are becoming too high-priced.

In a test of customer attitudes, one of the big companies marketing luggage wanted to find out what luggage meant to women. They gave interviewees two alternative questions:

I. Suppose you've just entered a hotel room occupied by a female. Before you meet the occupant, you see a portable typewriter and a piece of smart luggage. What would you say as to the work of the woman who occupied that room?

II. Same situation but you see a portable typewriter and a piece of old battered luggage.

Responses were many and varied but two typical answers were:

I. Editor of a smart fashion magazine.

II. An old schoolteacher.

One of the best devices for making motivation studies is the interview, sometimes called the interview in depth. In these interviews, questions are included in an informal conversation in such a manner as to uncover reasons for buying that are sometimes quite different from the ones the customer gives—in all honesty, too. For example, one of the leading automobile companies conducted a survey to determine the market for small cars. Most people said they didn't want a small car because small cars were unsafe. Deeper probing indicated, however, that the real reason was that the customer wanted a car just as big and luxurious as his neighbor's.

### *The sales laboratory*

Among the experimental techniques, perhaps the simplest is the sales laboratory where you actually sell the product in a store and watch what takes place. Perhaps you set up a counter containing the product and record events with a concealed movie camera. Or you may send a trained observer out to a store or restaurant and find out what goes on. The observer representing one big coffee company was sent to find out, among other things, why one proprietor always bought the competing brand. He found finally that no commercial appeal was involved: The salesman for the competing brand had once done the restaurant owner a favor which the owner never forgot.

### *Operations research*

This tool has been adapted from production to do an increasing number of chores for the marketing chief. Currently, it is most often applied to set up the most profitable patterns of distribution—to figure



the location of warehouses, sales branches or distributors. (See "Operations Research: Can You Use It?" July NATION'S BUSINESS.) One type of operations research called linear programming allows the marketing director to decide the type of distribution he will use—direct, mail order, chain store, wholesale or specialty food shop. It can be used to help determine the type and quality of advertising—magazines, newspapers, direct mail or TV. It can also be used to determine the best proportion of products to get the highest customer satisfaction at the lowest cost.

Robert Harper of Nejelski and Company used operations research in a marketing problem for the J. W. Greer Company, producers of continuous food processing and materials handling equipment. With his help the company found a broader market by producing a smaller oven for smaller food preparation operations.

"As a result of this work," says Mr. Greer, "we are basing marketing plans and operations on engineering principles. By using operations research and linear programming techniques to break down the various phases of producing, selling and installing a piece of machinery, we can actually calculate exactly which customers can use it to cut down their own production costs and by how much. Then we are in a position to single out our best prospects and settle on the most economical ways of contacting and selling them."

Sales manager must be manager as well as a top salesman

### *Closed-circuit television*

New communications tools are being used increasingly to cut down travel and conference costs. One of these is the conference telephone. Another is closed-circuit television.

Closed-circuit TV enables top officials of a corporation to address simultaneously from the home office, or some other convenient spot, field sales forces gathered in theaters or hotels in various places. Communications officials say it is cheaper to hold company meetings this way than to bring personnel to one point.

The National Dairy Products Corporation recently made a closed-circuit TV presentation of its annual merchandising and promotion plans for 4,500 salesmen in 15 cities. The Dodge Division of Chrysler recently held a sales meeting in which officials addressed dealers in 29 cities. Estimates are that 15,000 dealers participated.

# 3. The sales force

Consumer is smarter; salesmen need a new combination of talents

Today's new concept in marketing is being reflected throughout the whole sales department, down to the last individual salesman. The guiding principle is the increasing recognition of the need to service the customer, and the man who represents the company with this customer is the salesman. Thus, the emphasis throughout the whole sales structure—salesman, supervisor and sales manager—is focused on how the company can do a more effective job for the one who buys the goods.

This recognition becomes a must because of the actualities:

The consumer is becoming a smarter purchaser and the selling process is more difficult.

Thus the salesman must represent a new combination of talents. He must understand psychology, public relations, merchandising, the economics of doing business and also company policies. The manufacturer's salesman must even understand how to train distributor salesmen. This calls for a more mature and sophisticated individual, better-trained and better-directed.

More and more companies are learning that the best training program can be nullified by bad selection practices. Thus the company must make sure the right man—the right man for that company—is being fed into its ranks.

Demands on the salesman are also increased by the growing complexity of the market as companies diversify and move into new areas of selling. A good example is a large manufacturer of paper containers which used to sell mainly to dairies and restaurants. Now it has expanded its markets to the hotel and restaurant industries, candy manufacturers, hardware retailers, fertilizer manufacturers, florists and even concrete manufacturers. Because of the new and varied areas in which the company is selling, its approach is closely geared to the individual market.

"The market dictates what we do," says this company's director of sales. "It dictates the kind of salesmen we employ and how we train them. Our salesman is now a sales counselor and, even more than that, a business counselor, if you please. He is an expert in the packaging field; he gives the dairy manufacturer advice on a more effective merchandising job; he has to be equipped to talk with the production man in the dairy—also the sales promotion manager and, perhaps, the owner and operator. He sells them all in terms of the profit they can make from our products."

One of the company's brochures addressed to its salesmen carries under big headlines the quotation, taken from a customer's plea:

"Don't tell me how good your goods are. I assume they're good. Otherwise you couldn't compete. Tell me instead how your goods will help me make a profit."

Sales is the last frontier for the application of scientific tools and, as the whole distribution area is being examined, there is an increasing tendency to examine sales policies for profitability rather than beat the drum for sales volume.

For example, the Ditto Company's marketing executives found that, by following their old measurements for sales success, they were kidding themselves. Applying the profitability principle, they found that the biggest districts in volume were not necessarily the biggest districts in profits. The company is now applying new criteria for profit responsibility. This is expected to produce an entirely new strategy of sales.

The salesman adheres to the principle of profitability in his own as well as the customer's company. When he starts making calls, he puts into play a lot of expensive equipment—automobiles, delivery machinery, services, his own salary, and so on. If he calls on a dealer who buys only a little merchandise, a good salesman will ask himself, "Is this making the best use of my sales time?"

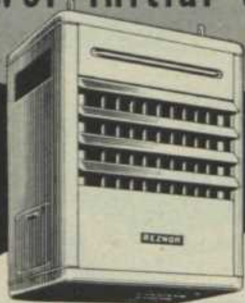
Sales planning is becoming more profit conscious than sales volume conscious. In planning one new product, the Du Pont management specified that it would rather have less sales volume and higher return than greater sales volume at the old percentage of return.

Salesmen thinking about their own company's profit margin find it logical to do the same thinking for the customer. The salesmen of one big paper products company are trained to show each customer a profit and loss statement for the markets the customer calls on. Their customers are manufacturers and the salesman can show them just how much he must sell to recover the added packaging costs, quoting figures on what others have done to increase their profits.

### *The sales supervisor*

The demand for more mature and sophisticated salesmen puts increasing demands on the sales supervisor.

One of the biggest problems today is getting a man who can go up—eventually to the post of sales manager, and even beyond. The







SELLING TOMORROW'S MARKET *continued*

"The graveyard . . . is full of companies that did not remain sensitive to customer needs"

difficulty in developing a good supervisor is that, as a salesman, he was a doer.

Although one qualification of a supervisor should be good selling experience, as a supervisor, he must learn other skills. He must get other people to do things. He must multiply himself through others. In short, he must begin to acquire administrative ability.

In many fields, a supervisor can learn by watching. In sales, this is more difficult. Because a salesman is on the move so much, it's harder for him to learn administrative functions than it is for a man of equal ability to learn administration in other fields.

"The salesman will not come to the company molded and shaped to type. Training is extremely important," says Mr. Finkel. "For this reason, the sales supervisor becomes a critical factor in motivating, directing and training the productive sales force. Too few companies have given the necessary attention to training the supervisors they need."

The American Management Association recently held a meeting devoted to the technique of selecting and developing the sales supervisor. A surprise overflow of 500 men from top sales management showed the intense interest of business in this problem. Out of the conference came a new demand for additional meeting for the supervisors themselves—on the district and branch manager level.

"One of the most impressive trends in business today is this trend toward the increase in the number, importance and influence of the field sales supervisors at all levels," says Walter Semlow, of Barrington Associates. "It is not so new in itself but new in the rate at which it is accelerating.

"Today's salesman must be better educated, better trained and better controlled. Because of the great scarcity of salesmen today, many of them have to be taken right out of school, so a whole organization is set up to help the salesman do his difficult job. The answer is more and better supervision."

For example, one company which needed about 200 salesmen to man its field sales organization found great difficulty in getting 200 with the necessary skill. Instead, the company found it possible to get 30 district managers and six regional managers who did have the skill or the capacity to acquire it—not swivel chair generals but leaders willing to go out in the field and show men by selling. This company has three levels of supervision: regional, district and divisional.

Another company in the same position has organized similarly.

"Our salesman is buttressed from the top, the bottom and the sides," says the sales manager. "In each region there is a specialist on such things as automation equipment, vending, packaging, production, etc."

In each region, there is a well trained manager and supervisors for every eight to 10 salesmen.

In its old field organization, the company had 13 division managers with 25 to 28 salesmen reporting to each. Now it has the six regional

managers reporting to the general sales manager. Under them are three to five division managers and under each division manager are only eight to ten salesmen.

"This set-up gives better and more integrated control," says the sales manager. "If the salesman is a key man today, the supervisor is a key-er man."

### *The sales manager*

Sitting on top of this sales structure is the man who sets the keynote: the sales manager. According to a consensus of marketing counsels and sales executives, here are some of the things he must be:

He must be a different kind of man than was the sales manager of the past. Then the sales manager used to be the best salesman graduated to the top. Today his job is sales management in a very real sense. While he still should come from the sales force, the emphasis in his work must shift on the way up the ladder.

He must get away from the crisis kind of operation—from answering calls from Good Old Joe who wants the boss to come out to the West Coast and sell him out of a critical situation. The sales manager can no longer be a crutch for his men, in the new way of thinking. Doing the job for Joe only undermines Joe's confidence in himself.

The new sales manager can't be the old haranguer who rallied his men with the cry, "Let's get out there and fight." He still has to be a leader. But the old bromides won't work for the more intelligent people coming into sales today.

The new sales manager must be able to plan the objectives of his department, chart the best sales course, organize and direct his men so he can keep fingertip control on what's happening and still not be overloaded with the details of the job. He must learn to delegate authority. His changed role demands that he stay home more of the time. Yet he can't lose touch with his customers and what's going on in the market.

He needs to know a lot beyond the boundaries of sales: psychology, economics, finance and company policy. He'll have to learn to understand the functions of advertising, market research and the like. He's going to have to evaluate the advice he gets from specialists in these fields and put it into practice in sales.

All the marketing research efforts are to no avail if that last job is not done—to close the gap between the salesman and the customer. All of the advertising and research preliminaries were done in an effort to help the salesman make the final sale. So the sales manager will have to learn to use them.

The exact approach a company takes is secondary to the basic change in its attitude. In some companies it will take years for the change to be fully reflected, marketing authorities say. Yet if this change is not introduced, they warn, a company may find its markets have slipped away. And, as one management consultant put it,

"The graveyard of dead businesses is full of companies that did not remain sensitive to customer needs."

Many students of business have said that the first 50 years of this century belonged to production. They feel that the last 50 years will be the golden age of selling. The great rumblings in the industry that are reflected in the change-over to the marketing concept indicate this change in emphasis has already come. Teamed up with growing production, the added marketing capacity cannot but mean added prosperity and a higher standard of living.—PHILIP GUSTAFSON

**REPRINTS** *of "Selling Tomorrow's Market" may be obtained for 35 cents a copy or $27 per 100 postpaid, from Nation's Business, 1615 H Street N.W., Washington 6, D.C. Please enclose remittance with order.*

# 6 step plan avoids federal aid

## How one state is handling its growing school needs

OHIO is demonstrating how businesslike methods can help financially poor school districts acquire needed classrooms without federal aid.

Ingredients of the state's five-year program include:

▶ A professional and objective analysis to determine each district's real school needs and ability to finance them.

▶ Consolidation of some school districts in a way to lessen the burden on needy districts and improve their financial potential.

▶ Research aimed at reducing school construction costs.

▶ Drawing on the local community's maximum financial resources, within reasonable debt limits.

**Despite 40% enrollment increase**—pupils per teacher dropped **28½** to **26½**

▶ Providing state assistance on a priority basis, keyed to urgency of need, and only to those districts which are unable to finance their own construction needs.

▶ Requiring repayment of state aid, to the extent possible, over a maximum period of 30 years.

Underlying the new program is the conviction that Ohio and its local communities have always taken care of their school needs and will continue to do so without federal help, and that schools are primarily a local responsibility.

Over the past 10 years, the number of pupils per teacher has dropped from about 28½ to 26½ despite a 40 per cent increase in school enrollment, according to figures cited by the Ohio Chamber of Commerce.

Total spending for schools more than tripled from about $175 million in 1945-46 to $593 million in 1954-55.

Capital expenditures have risen sharply every year, from more than $5 million in 1945-46 to more than $139 million in 1955-56.

Bond issues for school construction voted by local communities have also risen almost every year, from nearly $41 million in 1946 to more than $100 million voted in each of the past four years. They add up to about $900 million for 11 years.

Teacher salaries have more than doubled over the same period. Average annual salary for an elementary teacher has risen from $1,947 to $4,017; for a high school teacher from $2,251 to $4,522.

Ohio's five-term governor and new senator, Frank J. Lausche, first opposed state aid but came to accept it, under certain conditions, for two reasons:

**1.** Some Ohio school districts just cannot raise enough money for construction because of a low tax "duplicate"—the limited amount and assessed value of taxable property—and a statutory limitation on school district indebtedness. The limitation is nine per cent of the district's tax duplicate; it was raised from eight per cent in 1955.

**2.** State aid is preferable to federal aid, and may help forestall its coming.

In an interview with NATION'S BUSINESS, former Governor Lausche said:

"Our program demonstrates Ohio's purpose to solve its own problems. It is a fallacy to believe that money provided by the federal government is obtained as a gratuity."

State and local governments should solve their problems together without federal intervention, Senator Lausche believes. Even within the state, he says, financing and other problems should be handled locally as much as possible, with the state stepping in to help only when local communities are unable to take care of themselves.

The state Department of Education was removed from control of the governor's office last year and placed under an independent 23-member Board of Education, one member elected from each congressional district. Those behind the move were inspired, in part, by former Governor Lausche's repeated refusal to allow state aid for operating purposes to school districts which did not demonstrate need for it.

The Board's personnel committee recommended that a professional survey be made to establish Ohio's actual school needs. The committee chairman, Charlton Myers, pointed out that it would bring a businessman's approach to analysis of the state's school system. It would, he added, be the first study conducted for a

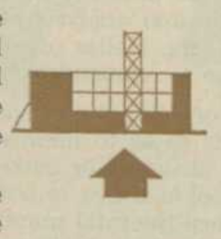
**Spending for schools up:**
**$175** million in **1945-46**
**$593** million in **1955-56**

public school system by a private firm devoted to management consultation.

The Board retained Robert Heller & Associates, Inc., of Cleveland to survey Ohio's public school building needs over a five-year period, and to recommend procedures for granting state aid to needy districts. The Heller organization has done work in the past for federal agencies as well as city governments and private industry.

The Heller staff distributed a questionnaire to all 1,249 districts, seeking current information on enrollments, growth trends, existing facilities, new construction required, the district's financial situation, and other pertinent data. There was a 100 per cent response.

Then members of the Heller staff visited each of the districts which said it needed state aid. They reviewed the data and discussed classroom needs and related factors with local school and other officials. Where warranted, the data was revised or refined to reflect the situation more objectively.

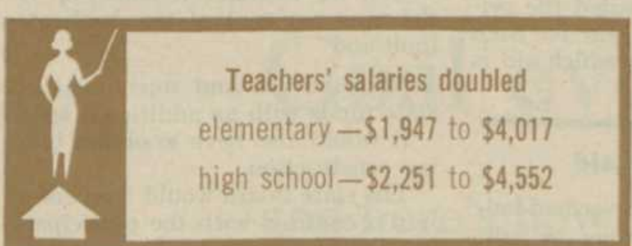



In determining a district's financial resources, the Heller questionnaire obtained information on the amount of additional bonds which the district might vote within the nine per cent debt limit; on the unobligated balances of capital outlay funds, and on the amounts of building aid already granted by the state or in "federally affected" districts by the federal government.

Heller analysts also determined how much of a district's outstanding bonded indebtedness would be retired in each of the five years and the additional bonding capacity that would result from estimated annual increases in the district's tax duplicate.

The annual amount of retirement of new bonded indebtedness for each of the five years was estimated. These estimates were based on the amount of borrowing, within the nine per cent debt limit, which would be needed to complete the district's building program.

The sum of all these factors for each year was the district's potential financial capacity.




These are the major Heller organization findings:

***Requests for aid:*** Heller experts concluded that 115 of the 260 districts which originally claimed a need for help did not really require it. They were able either to finance their projects alone or to pay for required construction by consolidating with another district. Twelve other districts which were not among the original 260 which asked for help were added to the needy group on the basis of information developed by the study.

***Enrollments:*** Public school enrollments by the 1960-61 school year will rise to 2,022,590, or 28.3 per cent above 1955-56.

Elementary schools will continue to be under in-

creasing enrollment pressures for some years. Secondary schools will begin to feel the impact of the post-war tide of children in 1960-61. Enrollment in 1951-52 was 1,274,013.

***Facilities:*** Last June, Ohio had 3,-845 public schools with 64,565 classrooms either in existence, under construction, or planned with funds available. Of the classrooms, some 2,424, or 3.75 per cent, were considered unsatisfactory because they were too small, unfit, hazardous, or for other reasons.

The state also had 4,465 gymnasiums, auditoriums, combination gym-auditoriums, and multipurpose rooms.

Needed by 1960-61 are 9,707 additional classrooms, 5,776 for elementary grades and 3,931 for high schools. Also 44 gymnasiums, 23 auditoriums, 67 combination gym-auditoriums, and 248 multipurpose rooms, as additions to existing buildings.

Under the proposed program, the classroom inventory will increase 15.6 per cent, compared with a 28.3 per cent increase in anticipated enrollment. That is because many non-needy school districts have excess facilities which will absorb much of the increase in expected enrollment.

Classroom requirements were calculated on the basis of 30 pupils per elementary classroom and 25 per high school classroom, which are standards of the state Department of Education.

In timing classroom construction, consideration was given to economies that can be achieved by building the requirements of more than one year as a single project.

With the exception of those districts having special problems, no district was deemed to qualify for state aid unless it met the state Board's minimum criteria for a permanent high school center. These require that the district have at least 240 pupils in grades nine through 12 and taxable property exceeding $5 million.

***Costs and aid needed:*** Total building costs to meet needs for the five-year period are estimated at $324,-366,368. This is broken down as follows: $144.7 million for this school year and next (combined because state funds won't be available until past the middle of this school year), $57.9 million for 1958-59, $55.8 million for 1959-60, and $66 million for 1960-61.

The 115 needy districts will have costs of $115.9 million, of which they will be able to finance $66.4 million and will need state aid amounting to $49.5 million.

To obtain sound cost data, the Heller staff obtained assistance from the Architects Society of Ohio. Discussions were also held with the research committee of the state Board of Education and with key personnel of the state Department of Education. Agreement was reached on school building standards, with emphasis on economy.

After devoting six months to the study and analysis of Ohio's problem, the Heller organization made these recommendations:

▶ Consolidation of some needy districts so as to improve their financial structure or make better use of school facilities, or both. This would reduce the total number of districts by 152, from 1,249 to 1,097. It further proposed that the state assist those districts only on condition that they do consolidate. The report called this "a constructive use of the state Board's influence in stimulating the creation of administrative units better able to offer a well-rounded program of education."

▶ Adoption of a new, simplified priority plan to be used to measure the relative urgency of need among districts.

The priority factor for any one school year would be computed by dividing the number of pupils by the number of satisfactory classrooms which exist or can be financed with local funds. The larger the result, the higher the priority. On that basis, the report computed the priority for each school year for each of the 115 districts for which aid is recommended.

### City does without aid

Columbus, Ohio, has never had federal or state aid, crowding, or half-day school sessions. Here are its record and plans:

Studies are made every two or three years, sites purchased in anticipation of needs.

Almost $45 million in construction bonds voted in 10 years.

Tax rate unchanged, three mills.

In seven years, 28 new school buildings completed, 90 additions and major remodelings, 36 sites purchased.

In next few years, will build 17 more schools and 14 additions, obtain sites for two high schools.

The formula presumes that a district will have exhausted its own financial resources. Having done so, the degree of overcrowding determines its priority.

Before a district may qualify for a priority, it would have to:

**1.** Qualify as a permanent high school center.

**2.** Bond itself to the nine per cent legal limit. (The law permits no relaxation of this requirement and sets no ceiling on the resulting tax rate.)

**3.** Consolidate with other districts where that is desirable.

▶ Enactment by the legislature of enabling legislation under which the state would sell, rather than lease, classroom facilities to the districts on a deferred payment arrangement spreading over 30 years. The plan being considered by the legislature would be set up and operate in this way:

The state Board of Education would be designated as the agent of the state in the use of state bond money for school building maintenance. The legislature would appropriate biennially the amount of bond money to be utilized.

The Board would exercise full authority in allocating aid to school districts, but would make periodic accounting to the legislature.

After determining that a school district is eligible for assistance, the Board would give conditional approval for a particular project. To qualify for final approval, the district would have to obtain a favorable vote of its electorate:

**1.** For the issuance of bonds up to the nine per cent of tax duplicate limit and

**2.** For the use and repayment of state funds with an additional levy.

It would also have to obtain bids for construction.

The state Board would then enter into a contract with the participating district Board of Education, authorizing the local Board to acquire sites and construct classrooms in the name of and under the supervision of the state Board. Proceeds of the bonds of the school district and the state funds would be held by the state treasurer for construction of the project.

When construction is completed, the state would sell the property to the school district on a deferred payment plan, covering principal, interest and administrative expenses. The district would be required to repay the state annually at the minimum rate of a one mill tax, beginning the first year after receiving state funds.

The district, further, would have

to maintain a minimum tax rate of 5.5 mills for bonds and interest until obligations to the state have been fulfilled, but not for more than 30 years. At the end of 30 years, the obligation would terminate, whether repaid or not. The state would retain an interest in the property until the obligation was terminated.

The state school construction aid program is tied to a $150 million bond issue for public buildings expenditures over the next five years approved by Ohio voters in 1955. Assistance on a reimbursable basis, specified in the constitutional amendment which provided for the bond issue, will replace outright grants which the state began making in 1951, the first year Ohio gave construction aid to school districts. The grants have totaled $15 million.

Just how much of the $150 million will go for schools is undetermined. The bond issue is the first in which the state has included funds for school construction. Half of it—$75 million—must go for mental institutions, the original purpose of the bond issue proposal.

The other $75 million, but not more than $15 million a year, may go for school construction aid and for university and state office buildings, with no specific allocation between the three.

Heller cost estimates were based on actual current school construction costs. The report recognizes that changing costs and various other factors may influence the amount of state aid needed.

Heller lists these among factors which could affect significantly the amount of aid needed from the state:

**1.** A probable continuation of rising construction costs.

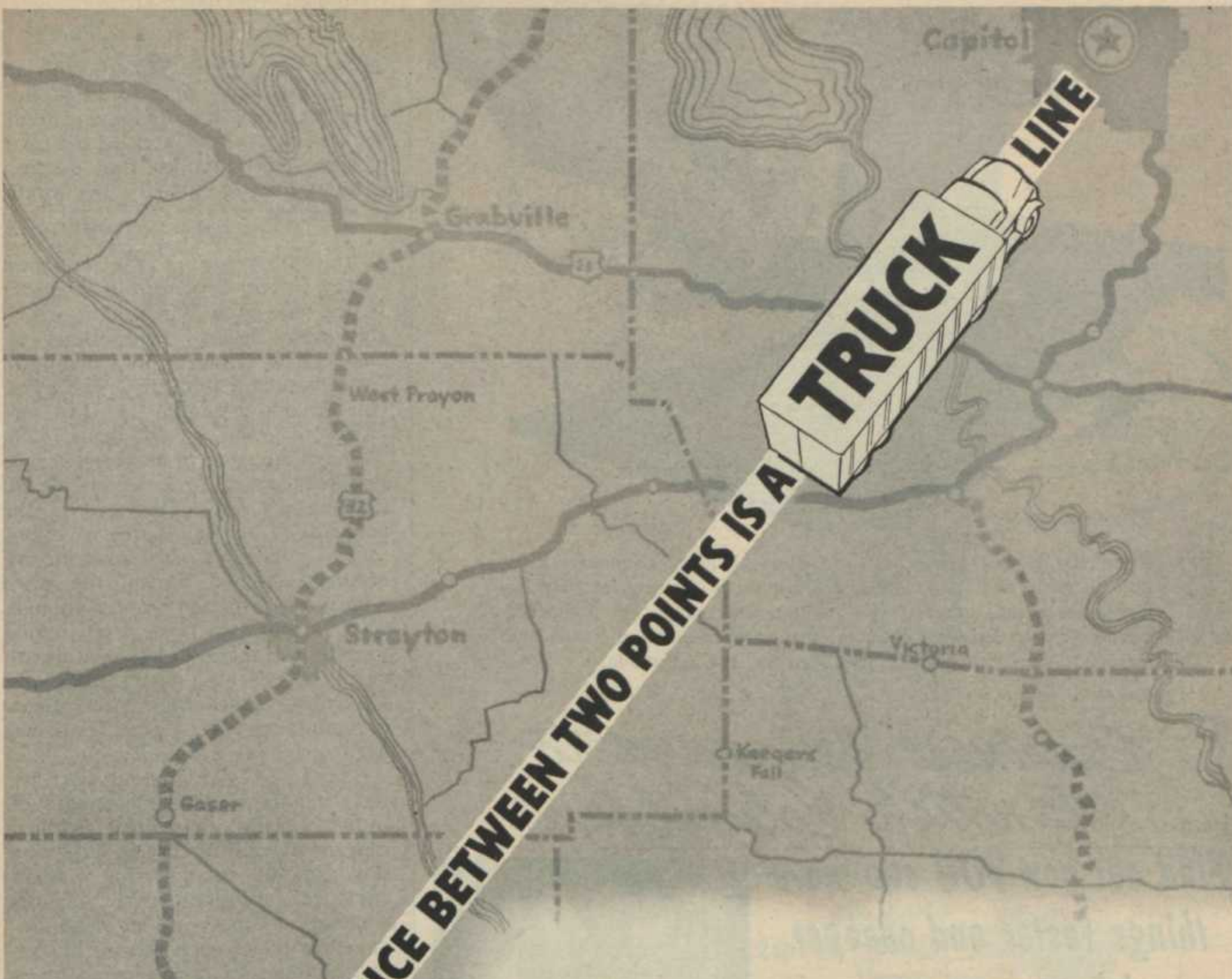
**2.** Research on reduction of school construction costs. A project is being conducted by an architectural consultant for the state Board. Lower costs might result from variations in design and materials used and revision of building codes.

**3.** Redistribution of tax valuations. It can substantially reduce aid need.

**4.** Federal building aid in federally affected districts. Allocations under an extension of the law can reduce local aid needs.

**5.** Change in the nine per cent legal debt limit.

**6.** Change in pupils-per-classroom standards. Building requirements, and thus state aid needed, would be directly affected by any revision in the standard of 30 pupils per elementary classroom and 25 per high school classroom. **END**

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## BUSINESS FUTURE

*continued from page 31*

creases are either stimulating or stabilizing—they tend to offset the effect of drops in employment upon the size of payrolls, and, in the case of stronger companies, they do this without forcing cuts in other kinds of spending.

**4.** *Improvements in the banking system and in the condition of banks.* In the old days, banks aggravated the more severe contractions of business by engaging in a competitive pursuit for liquidity. The most conspicuous example of this behavior, of course, was following 1929. The banking system has been greatly strengthened by amendments to the Banking Act in 1935 and by the acquisition by the banks of enormous quantities of government securities issued during the war. The banks are now strong enough so that they can be counted upon, in most instances, to try hard to expand their earning assets in periods of business contraction. This change in bank behavior is a great contribution to economic stability.

These several influences that are reducing the cyclical movements of industry tend to reduce cyclical movements still further by loosening the economy and creating a tendency for different parts of the economy to move up or down independently of each other. The effect of these opposite movements is stabilizing.

The loosening up of the economy is illustrated by the divergent movements of the nine principal forms of expenditures on various occasions: 1, durable consumer goods; 2, nondurable consumer goods; 3, consumer services; 4, residential nonfarm construction; 5, other construction; 6, producers' durable equipment; 7, inventories; 8, goods and services by the federal government; and, 9, goods and services by state and local governments. For four quarters in 1949, beginning with the first quarter, the gross national product dropped. In one of these four quarter-to-quarter drops in the gross national product, three of the nine principal forms of expenditures (seasonally adjusted) increased; in two of the quarter-to-quarter drops, five of the nine principal forms of expenditure increased; and in one quarter-to-quarter drop six of the nine principal forms of expenditure increased. Again in 1953 there were two quarter-to-quarter drops in the gross national product, but on each occasion three out of the nine principal kinds of

spending increased. There is a stronger tendency for all kinds of spending to move together in periods of vigorous boom, but even when the quarter-to-quarter increases in gross national product have been large (as in the case of the four quarter-to-quarter changes beginning with the fourth quarter of 1954), one or two of the principal forms of spending have been dropping.

In the first nine months of 1956, when demand was pressing hard on the capacity of industry, three important forms of spending (on durable consumer goods, nonfarm residential construction, and inventories) were dropping.

Two important forms of spending have recently moved in opposite directions on crucial occasions. They are outlays on consumer's durable goods and outlays on producers' durable goods. Thus, for the nine-month period from the third quarter of 1949 through the first quarter of 1950, when expenditures on producers' durable goods were dropping, expenditures on consumers' durable goods were rising. Again in 1954, from the second quarter of the year through the first quarter of 1955 (a period of 12 months), expenditures on producers' durable goods were dropping, but outlays on consumers' durable goods were rising, limiting the contraction in business. Still again, beginning in the fourth quarter of 1955 through the third quarter of 1956, a period of 12 months, when outlays on producers' durable goods were rising, expenditures on consumer's durable goods were falling.

I do not assert that a rise or fall in expenditures on one of these classes of goods causes the opposite change in expenditures on the other class. I am simply pointing out that our economy has loosened up to such an extent that opposite movements of important forms of outlays have tended to limit the ups and downs of business.

***Rising price level***

The economy has been developing conditions that tend to produce a slowly rising price level. The full extent of this tendency has been obscured by the downward movement of farm prices, which have fallen more than seven per cent since June, 1954. But farm prices cannot be expected to drop indefinitely. Their drop will be limited by the movement of people out of agriculture which tends to limit the output of agriculture. Since incomes in agriculture are far below the incomes yielded by work of similar skill or responsibility outside of agriculture, the movement out of agriculture,

which has been going on for more than 40 years, will continue.

The prices of commodities other than farm products and foods show a strong tendency to creep upward. In the 29 month-to-month changes that have occurred since June, 1954, the index of these prices has moved upward 24 times; it has dropped only four times, and it has remained unchanged once. In all it has risen about 7.7 per cent in 28 months.

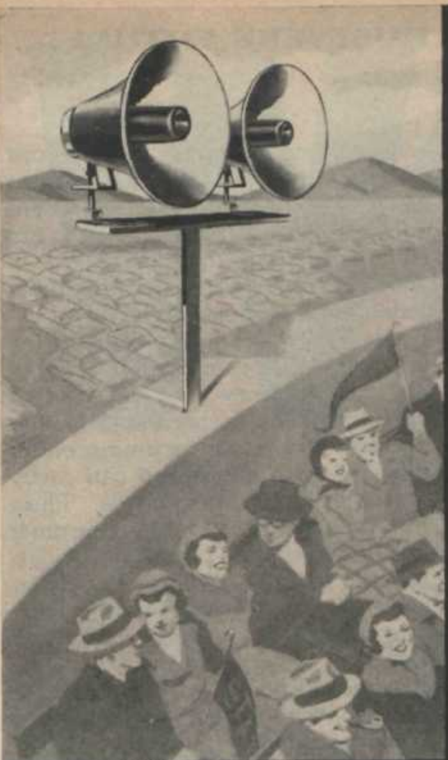
A continuation of this slow rise in prices is likely in the long run. One reason is the growing capacity of the economy to increase the demand for goods. A second reason is the prospect that the labor expenditure required to obtain given quantities of nonreplaceable raw materials (petroleums and metals) will increase. Only a small part of the world is industrialized, and as other countries build up manufacturing industries, the demand for petroleum and metals will increase enormously.

The third and most important reason for expecting a slow rise in prices is the bargaining power of trade unions. If the economy succeeds in maintaining a strong demand for goods and a high level of employment, the unions will push up wages and fringe benefits a little faster than gains in the productivity of labor. Under such conditions, it takes a long stoppage to force unions to limit their demands to the gain in productivity, and the country will not stand for long stoppages in the steel industry, the automobile industry, the rubber tire industry, the coal industry, and many other industries. Already many long-term contracts provide for annual wage increases that will more than absorb all gains in productivity likely to be made during the life of the contract. If labor costs rise, the price level will also have to rise.

But will not technological research raise productivity as fast as unions raise wages and fringe benefits, thereby preventing a general increase in labor costs? That possibility is not bright, because the new equipment and new plants required by changes in technology must be supplied by the existing plant and equipment of industry. Thus, the more rapid the rate of technological change, the greater is the pressure upon the existing resources of industry. This pressure puts the unions in a strong bargaining position.

### Growing competitiveness

Competition is becoming more intense in most industries. This fact is



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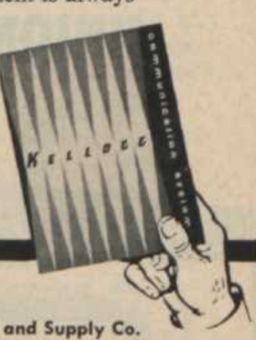

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reflected in the rather poor record of corporate profits during the past five years. In 1956, profits after inventory valuation adjustment are running at about the same rate as in 1951 when the total output of the economy was about one fifth less.

One reason for keener competition is the growing competition between old goods and new goods. This kind of competition is becoming keener because people are becoming better supplied with goods and can easily postpone buying new goods. Thus, the amount of durable consumer goods owned per person, when expressed in dollars of constant purchasing power, considerably more than doubled between 1900 and 1949.

A second reason why competition is becoming keener is industry's growing capacity to improve products and methods. Every enterprise is threatened to an increasing extent with the possibility that its rivals may bring out a new or cheaper product. Hence, there is a growing rivalry in attempts to make technological discoveries.

The new competition may even come from another industry because one of the principal effects of technological progress is to supply industry with an ever growing variety of materials, processes, and products. The only protection against competition from new and better products and methods is to improve one's own product and one's methods. Thus, the competition in technological research tends to become keener and keener.

Finally, competition is being stimulated by the growing rewards for successful innovation. The bigger the market, the greater are the rewards reaped by the developers of successful new products. Never have the prizes for successful innovation been as huge as they are today in the immense American market which accounts for 40 per cent of all the world's consumption. These rewards will be even larger tomorrow. The enormous rewards for successful innovation explain in part why large firms in industries where there is considerable concentration of production compete vigorously for larger shares of the market. In a rapidly changing economy enterprises must struggle hard even to hold their share of the market.

But is it not a contradiction to argue that competition is growing more intense but prices are likely to creep upward? Will not competition prevent prices from rising? The


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answer is "no." Competition will prevent prices from rising faster than costs, but it will not prevent prices from being adjusted in the long run to rises in costs.

***Significance of these trends***

These five basic economic trends have far-reaching implications for the country. Our growing capacity to produce and to increase the demand for goods and the diminishing susceptibility of the economy to cyclical movements mean that the country can look forward with considerable confidence to rising productivity and to an expanding and rather stable demand. Today the fear, held by many economists in the thirties, that any economy with high per capita production must expect a chronic deficiency of demand, seems pretty foolish. But this over-all picture of adequate demand and rather steady expansion that I have painted must not lead one to overlook the fact that, in an economy of rapid technological change, many old industries are bound to suffer from the competition of new products—as the experience of interurban lines, the electric street car lines, vaudeville, the textile industry, the soap industry, so vividly shows. Sometimes an old industry makes a strong comeback, as the coal industry seems to be doing.

The present trends have the net effect of making stocks more attractive relative to bonds. Certainly, four of the trends (the growing capacity of the economy to increase productivity, its growing capacity to increase demand, its diminishing susceptibility to business cycles, and the influences tending to raise prices) all tend to raise the attractiveness of stocks relative to bonds. On the other hand, the increasing intensity of competition undoubtedly tends to make bonds more attractive relative to stocks.

The buyer of bonds does not directly share in the fruits of technological progress. As research becomes more important, the exclusion of the bondholder from direct participation in the gains of progress becomes an increasing disadvantage. In addition, the chance is remote that there will be falling prices to help the bondholder, and there is a strong chance that he will suffer from rising prices.

Thus far, the prospect that prices will slowly creep upward in the long run has had rather limited effects in the capital market, though it has affected the investment policies of

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## BUSINESS FUTURE
*continued*

many endowment funds, mutual funds, pension trusts, and individual investors. Partly the reason has been that it has had little effect upon the sources of institutional investment funds (life insurance companies and savings banks) and partly because important institutional investors are drastically limited by law in their right to buy stocks.

Many buyers of life insurance and depositors in savings banks are apparently willing to ignore long run trends because they are not really interested in the long run. But the possibility cannot be overlooked that eventually the supply of funds available for fixed-dollar investments will become inadequate and that higher interest rates may not compensate for this inadequacy. Furthermore, the strong probability that the price level will creep upward makes it desirable that the basic design of pension plans be reconsidered. Some industries may decide to set up some kind of variable annuities similar in general design to the variable annuities now provided for college and university teachers through the College Retirement Equities Fund.

The growth of research, the acceleration of innovation, and the growing intensity of competition affect the structure and the policies of management. It is becoming increasingly important that managements have an opportunity to think and to make long-range plans. Many large companies have reorganized the structure of management to free top executives from responsibility for routine administration and to give top management a better opportunity to do policy-making and planning. Similar changes probably need to be carried down into enterprises of medium size.

The threat of slowly rising prices makes it especially important that managements do what they can to raise productivity in ways that do not create sellers' markets for labor and thus raise labor costs. This can be done by getting more production from existing equipment—thereby limiting the demand for new equipment. More output can be gained from existing equipment by better selection, training, and supervision of workers, by better organization and scheduling of work, by better control of the quality of raw materials, by better planned maintenance, and, in some cases, by two-shift or three-shift operations.

The expansion of research and the increasing intensity of competition are increasing in many industries the size of enterprise that is most economic. Rapid technological change and more intense competition make it important to reduce the risks of business by diversifying product lines. These same conditions also make it important that enterprises be large enough either to do technological research themselves or to contract for research help from outside organizations. It is often hard for concerns to acquire by natural growth the needed diversity of products or the volume of sales needed to enable them to meet the cost of good research work. Mergers are often the best way of achieving these conditions. Undoubtedly, many more mergers are needed, particularly among small concerns and concerns of medium size.

The growing importance of product diversification and research creates problems for newly organized concerns. The new enterprise is likely to start as a single-product firm. Some years are usually needed before it can take on new products or gain diversification by merger. And

> America is not Utopia. But as a way of life, it comes closer to being Utopia than any other living pattern ever devised by man, and we can always strive to make it better.
>
> —Boyd Campbell

the new concern may have trouble in doing the needed amount of research. Corporation tax laws need to be reviewed for the purpose of discovering whether they should be modified to make it easier for new concerns to grow and survive.

The sellers' markets that are the result of industry's success in raising the demand for goods mean that a policy of credit restraint will be in effect during most of the time in the foreseeable future. This prospect raises difficult problems that up to now have received little attention. Credit restraint seems to bear unevenly upon different parts of the community. The most fundamental question raised by a long continuation of the policy of credit restraint is whether the interests of the community are satisfactorily served by letting the allocation of scarce investment funds be pretty completely determined by the usual marketing tests. If some modification of the allocation of funds by the market is needed, can private lenders and buyers be relied upon to see that the interests of the community are satisfactorily served in the allocation of savings and credit? Fortunately

some large banks and insurance companies have already begun to grapple with this problem.

The sellers' markets also are creating a new era and new problems for trade unions. In the past, labor organizations have been struggling to get what they consider to be a fair share of the gains of productivity. A high level of employment and the rapidly growing demand for goods are enabling most unions to raise wages a little faster than the increase in productivity. Hence, unions lose through rising prices part of the wage increases that they gain. Unions, therefore, need to consider whether it is really worthwhile to raise wages faster than industry as a whole can raise the productivity of labor. There is an obvious clash here between the interests of the strongest unions and the interests of workers as a whole. This is a new problem which unions have never had to face.

Finally, technological changes are changing the composition of the labor force with profound effects upon the nature of the community itself. Industry has less and less use for unskilled labor and more and more need for technicians of various kinds, skilled craftsmen, and various kinds of white collar workers. These changes are having two principal effects. In the first place, they are increasing the size of the traditional middle-class occupations. In the second place, they are changing the point of view of the middle class by making the middle class more employe-minded and less management-minded.

It is too early to appraise fully the complete effects of the changing composition of the labor force upon the outlook of the community. Apparently, the effect is to weaken both the conservatives and the radicals and to strengthen the middle-of-the-roaders. The kind of public policies which seem to be demanded by the new middle class are policies which go quite far in protecting the interests of employes (giving them pensions, severance pay, sickness insurance, and unemployment compensation), but which, at the same time, recognize that the ultimate sources of high living standards are high productivity, a high rate of innovation, and a vigorous spirit of enterprise.

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## OUTLOOK FOR TAXES

*continued from page 33*

year in and year out, to be in the black. We must recognize the need on occasion for tax reduction as a stimulus when our economy is turning down and we are losing the momentum and progress that we have had. Our Subcommittee on Tax Policy said a year ago that the situation that existed then made it inadvisable to reduce taxes. We hoped there would be some surpluses that could be used to retire bank-held public debt. We thought that was more in the public interest at that time.

Now we still have evidence of perhaps most of the factors that led us then to that conclusion. In the meantime there has been need for greater government expenditures than we visualized and they have used up much of that increase in revenues that would otherwise have been applied either in tax reduction or in debt retirement. We envisioned perhaps as much as $2 billion or more for debt retirement when we made our statement. We don't envision any such surplus, incidentally, for the present fiscal year, and it is not likely that there could be that much of a surplus at the end of fiscal '58. However, it is too far ahead for any of us safely to predict.

***Is inflation a big factor?***

Concern over inflationary trends was the basis of the conclusions that our committee reached a year ago, and I think facts since then have justified those conclusions.

Had the Congress not acted along the lines of our recommendation in avoiding a tax reduction in 1956 there is no question in my mind that price increases would have been even greater than they were in 1956.

***How will Congress know when the economy should get a tax cut?***

Well, the Congress could not ever know with certainty in advance that a tax cut will be called for at some particular time. I don't see how we could conclude in January that we should reduce taxes in April because by July there would be such unemployment as to justify a stimulus to the economy. In deciding about important changes in taxes we have to rely on all of the economic indications that are brought to our attention, and we have to be careful that we are not misled into believing that some economic indicator represents a long-term trend, whereas in fact it is merely a temporary upset. If it is temporary, the tax action we took might bring about undesirable results.

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"Prices might get out of hand . . . if the individual exemption were raised now."

Fortunately, though, the federal tax system has a good deal of built-in flexibility, which gives us some cushion against recession and inflation. In addition, as you know, we have relied quite heavily on monetary policy to provide adjustments to short-term changes in economic activity, using tax policy for longer-term adjustments.

***Your subcommittee has held hearings recently on so-called unintended tax benefits and hardships. Do you plan to introduce a bill covering these soon?***

We don't know just how soon we will conclude drafting the bill. We have run into a number of problems. It is in the most complex area of all taxation. You always must be careful that in the rewriting you do not create a new unintended benefit or unintended hardship.

***Do you expect legislation this year on the subject?***

Yes. We definitely intend to have, for the benefit of the full committee, legislation covering the points the subcommittee explored. It is not, however, a complete list of all the loopholes or unintended benefits or hardships. [The legislation affects such subjects as oil and mineral production payments, amortization of premiums on tax-exempt bonds, transactions in regulated investment company shares, deductions for income earned abroad, improvements on property subject to renewable leases, charitable contributions, depreciation on mortgaged property.]

***You have advocated broadening the tax base. What would that involve?***

I'm thinking in terms of those things that were written into the law in years past when there seemed to be justification for provisions that brought about some differentials or exceptions from the general treatment.

My thought is that we should determine whether or not present-day circumstances justify continuing these differentials in the tax law. I am not referring to the personal exemptions, which were about $93 billion in 1953. I am talking about the various types of income received by individuals which will not be subjected to the general rules of taxation applicable to income.

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"If we invade the field of state taxation . . . we drive the states to the federal government for help."

We have, as you know, income from certain sources which is completely exempted from tax. Do present conditions justify a continuation of these exemptions? Then you have areas where you apply exceptional rules for taxing. Do conditions justify the application of these different rules for those areas? In addition there are areas where gross income is reduced not only by the expenses which are incurred in deriving the gross income but by other features of law as well. Now, are those discriminations and differentials justified in light of present conditions?

The point is, if we could apply the same rules to all income, the rate of tax would not have to be so high. The rates have to be high if we are to derive the present amount of revenue because the base to which we apply those rates is not as large as it would be in the absence of the exceptions we have made in the past to the general rule.

If we could ever agree that income should be treated alike regardless of its source it would make possible a great deal of simplification in our tax laws, and in our tax forms and at the same time bring a material reduction in the rates that we would apply against that total income.

***Would such things as depletion allowances come under this general subject?***

Whatever constitutes an area of differential treatment—

***Capital gains, for instance?***

Definitely capital gains, because whatever the theory for treating capital gains differently from other income, the application of capital gains treatment has been widely expanded today. We now find capital gains treatment accorded in situations where there is neither a sale or exchange nor capital asset involved.

***Do you feel a more limited capital gains preference is justified?***

I think there is a decided justification for a contraction of our broad

definition of capital assets for capital gains and loss purposes.

***Any other major areas?***

Well, there are actually three areas that I am talking about. That area where there is partial or complete exclusion from tax, the area of depletion in the natural resource area, and the area of capital gains.

In your first area, you have many different types of situations. For example, I do not know how well the public is served by exempting from tax the interest from municipal and local bonds. Maybe it is, but it contributes to higher tax rates. People in many instances suffer as a result of high rates and all of us are fully aware of the need for reducing those rates. On the other hand, we face tremendous expenditures by government. If we are to find relief from these tax rates then the only way we can look for a reduction is to try to work out some broadening of the base to which the rate applies. When some people are being hit as hard as they are by taxes, I think we need to see whether or not there is justification for others to be treated differently.

***Do you regard that as an area for study by your subcommittee, for example?***

I'm not certain what will happen. I'm not certain that either the Internal Revenue Taxation subcommittee or the full Ways and Means Committee will go into all of these various areas. It would take some time to make an analysis and study. Hearings would be involved. As you know there are great pressures already on the Congress to look into the question of the taxation of cooperatives but to me that is only one of the facets. I am aware of other areas in which I think a change in the tax situation is also justified.

***Is there any chance that such a study would be done this year?***

I'm not in position to say what we will do.

***In this study of privileges and differential treatment would you include the individual exemption of $600?***

Not as an area of possible reduction. I pointed out earlier when I was talking about broadening the base, that I was not speaking in terms of doing that at the expense of the present system of exemptions. I have in mind the fact that not many years ago the exemption for married couples was $2,500 and I think we have the exemption now as low as it should be. If anything, I'm satisfied it should be higher.

I am principally concerned with
(Continued on page 108

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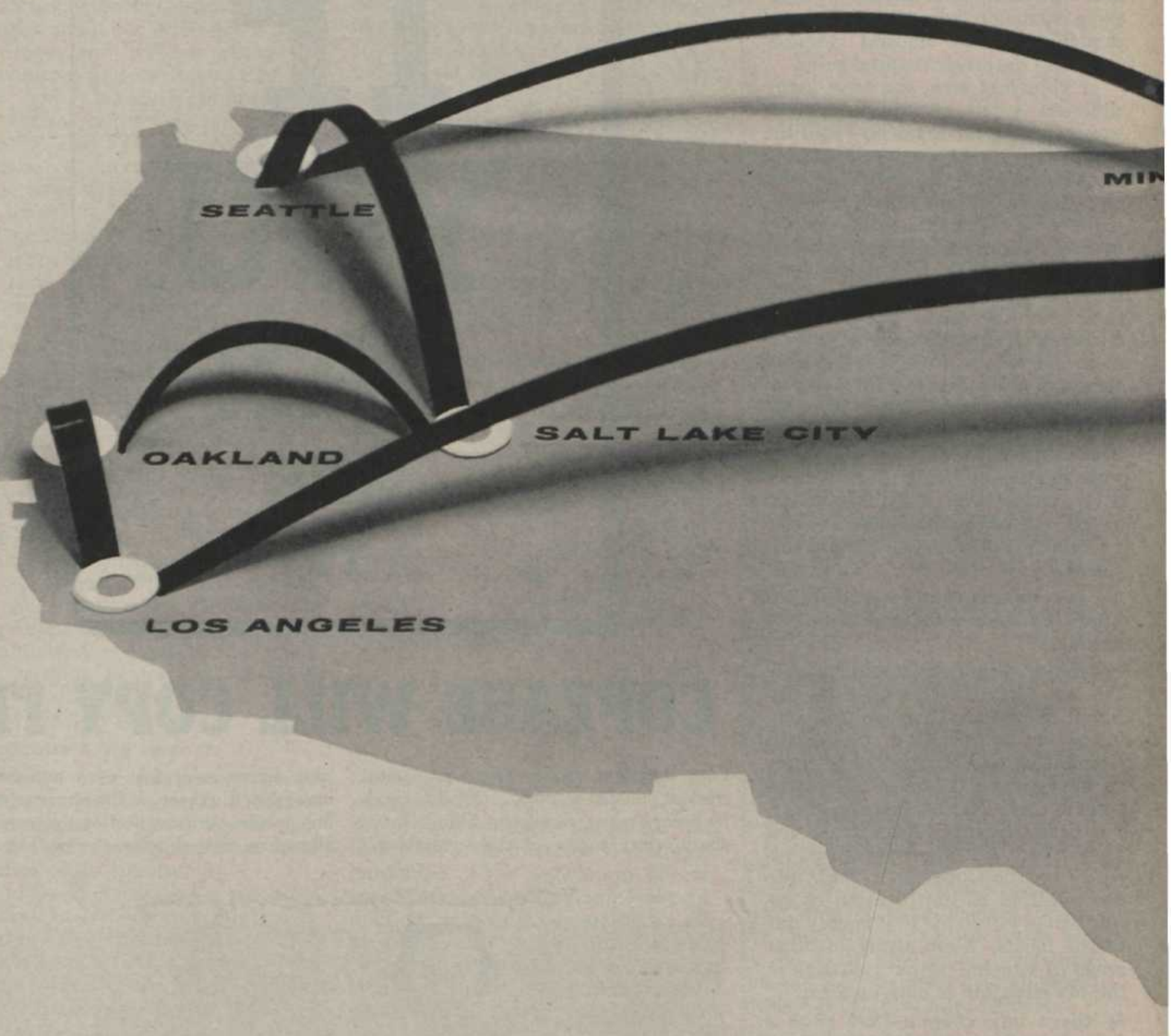


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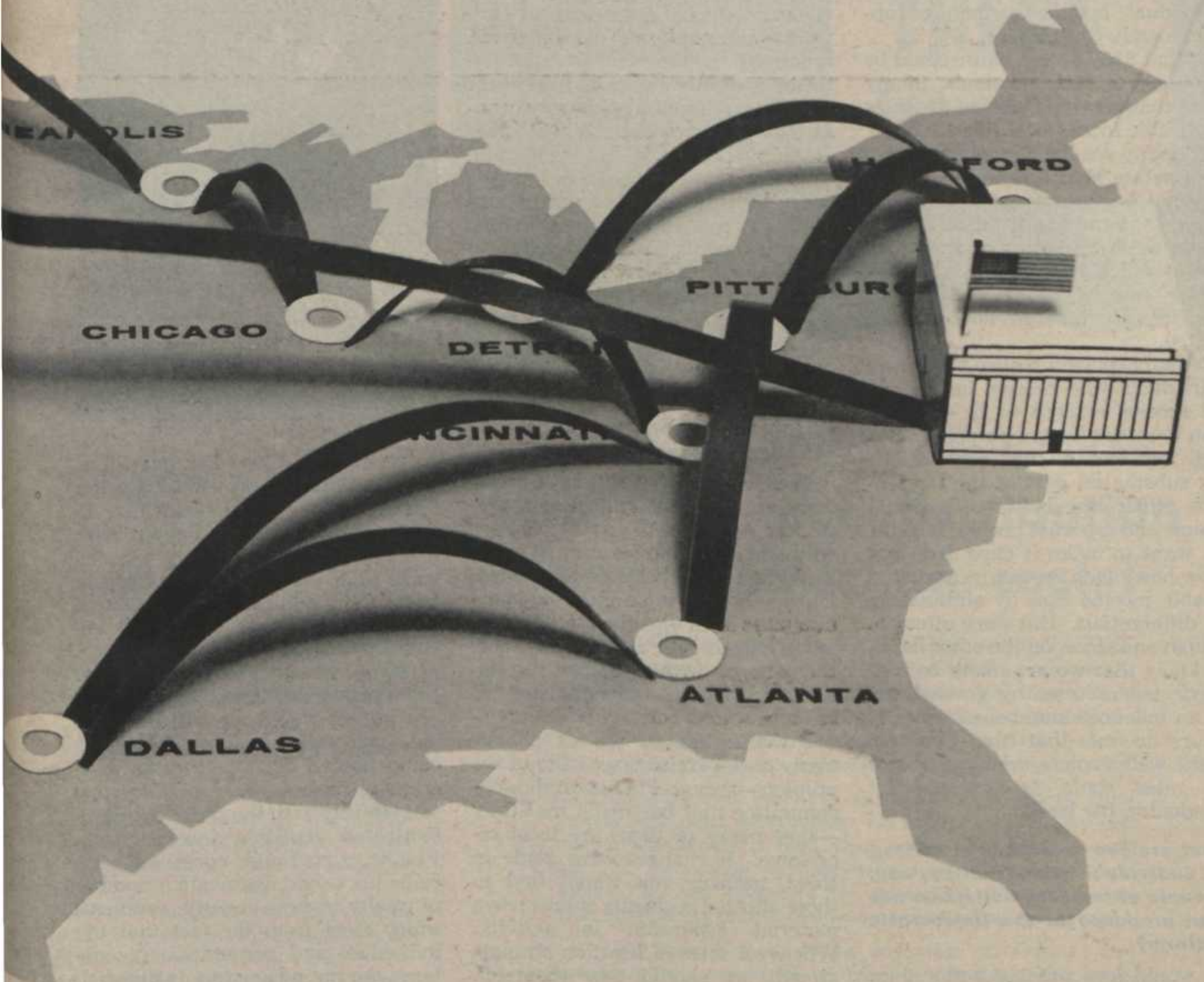


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Please take a look at the map. Pick out the Congressional Issue Clinic most convenient for you to attend. For further information, write to the Chamber of Commerce in the city where the Clinic of your choice will be held. Then by all means plan to be there. In the year ahead, you will be glad many times that you took part in this interesting and worth-while project.

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**MINNEAPOLIS, FEBRUARY 11**—Hotel Nicollet
**CHICAGO, FEBRUARY 13**—Sheraton Hotel
**CINCINNATI, FEB. 14**—Hotel Netherland-Hilton
**DALLAS, FEBRUARY 15**—Hotel Statler
**ATLANTA, FEBRUARY 18**—Henry Grady Hotel
**PITTSBURGH, FEBRUARY 19**—Webster Hall
**HARTFORD, FEBRUARY 20**—Statler Hotel
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## OUTLOOK FOR TAXES

*continued*

the other factors that account for the difference between personal income, as reported by the Department of Commerce in 1955 in the amount of about $306 billion and individual taxable income of approximately $130 billion.

If that $130 billion figure could be enlarged, there is no doubt in my mind that we could reduce the rates applicable to the total figure.

I long to see the day when we can have a rate structure applicable to personal incomes beginning at, say, 10 per cent and ending at, say, 65 or 70 per cent, depending upon the extent to which we can convert to ordinary income treatment some of this income that is not now so treated.

Now, of course I realize that many individuals who receive income do not receive enough to be required even to report for tax purposes. But their incomes do not account for any substantial part of the tremendous difference between personal income and reported taxable income.

I want to make it clear I do not know how much we can increase the taxable income base by eliminating tax differentials. But since rates are so high and since, on the other hand, we know that we are likely to face heavy expenditures by government for an indefinite number of years, it occurs to me that the Congress might well explore whether or not the rates could be reduced by broadening the base.

***What are the prospects of raising the individual exemption by, say, a couple of hundred dollars as has been proposed in the Democratic platform?***

I would love nothing better than to propose some such tax relief for low and middle-income taxpayers. If the revenue that we would lose that way could be replaced in some fair, equitable manner, I would think that it would be the will of Congress to provide such relief, but I do not know from what source yet we could obtain revenue to replace that loss. If we did not replace it, in all probability we would end with an unbalanced budget,

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". . . income should be treated alike regardless of its source."

and if inflationary trends continue I think the people for whom we intended such benefits would lose those benefits through increased prices and increases in the cost of living and might well find that they were actually in worse condition so far as their standard of living is concerned. Prices might get out of hand where monetary restraint and controls would not be sufficient to avoid inflation. If we brought that on them, certainly we would do them more harm than the temporary benefit that they would think they were gaining from any tax reduction.

Of course that would not necessarily be true in the absence of inflationary conditions. If we can work out some arrangement where we do not create that degree of economic instability by, say, raising exemptions, I think Congress would want to do it. I think the prospects for doing it are rather meager at the moment.

***Do you see any prospect for excise tax changes this year?***

Well, changes in the field of excise taxes are desirable and in many instances are needed just as changes with respect to the taxation of small business and individuals are needed. But we face the same situation in excise taxes as in the other areas. How much does it cost, and can we make the change within budget limitations, or will those changes result in an unbalanced budget?

I would like to see us change many of the excise taxes. I'm of the opinion—though I'm not on the subcommittee that has made the study—that many of them are most regressive. If changes were made in them, perhaps you would find in those affected segments of business a material expansion in activity. Whenever rates of taxation strangle growth, we should take them off. We realize that. Perhaps the economic considerations are serious enough that some of them should come off regardless of our budget situation. I don't know what the subcommittee will recommend.

***Is there any chance Congress will change the depreciation rules, allowing for fast tax write-offs this year?***

My own thought is that the rapid amortization feature served its purpose during World War II and during the Korean War, but that it's quite a tax subsidy when continued in peace time. I doubt that such a subsidy is justified at this time.

***What is your opinion of progressive corporate tax rates?***

I have always opposed graduated corporate tax rates. For one thing, a fully graduated tax would penalize relatively risky businesses with fluctuating incomes as compared with less venturesome businesses with the same total income over a period of years. In addition, a graduated corporation income tax would encourage corporate split-ups which, while not affecting real control over the various aspects of a business's operations, would nevertheless provide tax savings to some really big companies. I don't believe the government has ever been able to cope successfully with the problem of tax-motivated multiple incorporation. Finally, a graduated corporation income tax would aggravate a number of really serious equity problems which stem from the fact that the individual and corporation income taxes are not adequately integrated. I don't think we want to increase our problems of preventing the use of the corporation as a tax shelter for upper bracket taxpayers.

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"I would like to see us change many of the excise taxes."

***Will there be pressure for a progressive tax this year?***

As a part of the movement to reduce the rate of tax on the so-called small corporation I think some effort may be made to do that. You see, the graduated corporate tax rate has been offered to compensate for the loss involved in reducing the tax on the smaller corporations. This would require higher marginal tax rates than at present on bigger businesses. As much as small businesses need relief of all types, I would think that we would have to be very much concerned about the effect of higher taxes for some business on industry

structure, pricing practices, investment programs and a number of other factors which would affect economic growth.

***Will there be enough support in Congress to pass some type of graduated corporate tax this year?***

I would hope that the Congress would not pass a graduated corporate tax rate this year.

***Is there enough feeling against it so that it would not be passed?***

Yes, I think that is the case.

***Do you feel that the present individual income tax progression is satisfactory?***

I think many people have a grossly exaggerated idea of how much progression there really is in our income tax. According to the Internal Revenue Service data for 1953, the average effective rate of tax was less than 21 per cent in the case of 99 per cent of all individual income tax returns filed. I look forward to the day when there will be more real progression in the lower and middle brackets. There is no statutory rate progression, of course, in the first $2,000 of taxable income. I think there should be. Then there should be a more realistic rate at the top.

***Are you satisfied that income tax is the best possible source of federal revenue from the individual?***

I have always thought that a tax based upon ability to pay is the fairest—that is, as far as human beings can make a tax fair—and is perhaps the best way for the federal government to derive the largest proportion of its over-all revenue needs.

Now, it may not be possible for us to devise a system that would derive all of our needs from that type of tax, but we will run into a lot of serious difficulties if we try to rely more on other types of taxes. One thing, for example, that we tend to overlook is the more we use other types of tax, the more we invade the field of state taxation. As we invade that field more, it occurs to me that we make it less possible for states to carry out the functions conceived for them. That drives the states to the federal government for implementation of their needs, and constantly pyramids responsibilities of the federal government.

I would not want us to liquidate the opportunities that states may have, or should have, for financing their own responsibilities. If we could stay more in the field of income tax based upon ability to pay, and leave more of the other fields for state governments, I think we would have stronger state governments. END

## LABOR'S EXPERTS

*continued from page 37*

AFL-CIO will progress toward its over-all objectives only as long as its organizing is successful.

Mr. Livingston is approaching his task quietly and systematically, without the fanfare with which the CIO launched "Operation Dixie," the drive to organize the South which fell flat after World War II.

Targets of organization are being pinpointed—by industries and companies, states and localities—with emphasis where unions are weakest. Problems of conflicting jurisdiction of unions are being ironed out; others, like resistance and conflict in the South over AFL-CIO's pro-integration racial policy, are yet to be dealt with.

A drive to organize 700,000 non-union textile workers—575,000 of them in the South—has been authorized by the AFL-CIO Executive Council. It will center on multiplant companies.

A mop-up operation has been cleared in the cigaret manufacturing industry, with one big company the prime target.

Big organizing gains are anticipated among city, county, state and federal government workers with the merger of former AFL and CIO unions of government employes.

White-collar organizing problems are getting close study. One problem is how to sign up small groups of office workers in industrial plants. In some industries, such as automobiles and steel, they are being signed up in separate locals of the union in the shop or mill. This makes white-collar organizing easier, less costly, and sometimes more salable.

AFL-CIO organizing targets can be anticipated from a survey by Mr. Livingston and his staff of 300 organizers in 22 regions. Confined to AFL-CIO organizations, it shows:

▶ Thirteen states with less than 20 per cent of employes organized are mostly in the South; only seven states are more than 40 per cent organized, and only one (Washington) is more than 50 per cent organized. Washington, which was Teamster Boss Dave Beck's base for years, is 59 per cent organized.

▶ Least organized groups are employed in wholesale and retail trade; banking, insurance and real estate, only five per cent unionized. Others are: government, seven per cent; service industries, 10 per cent; crude oil and natural gas production, 30 per cent; public utilities and communication, 45 per cent; manufacturing, 55 per cent; coal and metal mining, 75 per cent, and construction and transportation, 80 per cent.

▶ Total organizable among 41 million employes considered eligible for union membership: 26 million.

## Politics

Jim McDevitt, director of the Committee on Political Education, hopes to increase labor's political activity and make it more effective as AFL and CIO mergers are completed in the states this year. Thus far merger of state labor organizations has occurred in only 19 states, and it is in those states that COPE claims to have made its best showing last fall.

COPE feels it must get even more active politically, on a year-round basis, to offset the apparent collapse of once powerful Democratic political organizations in major cities, such as Jersey City, Memphis, Chicago and New York.

In this Congress, labor claims about 190 friends in the House and 41 in the Senate, about the same as in the last Congress. But it looks for some members, who were previously cool to labor's views, to warm up because of labor's increasing political effectiveness.

McDevitt expects labor to make some gains in the next election and to support a presidential candidate again in 1960, despite Eisenhower's tremendous victory last fall over COPE opposition.

Mr. McDevitt is a product of Pennsylvania's school of practical politics. While president of the AFL organization in the state for 13 years, he spent much of his time in legislative work, or lobbying, and participating in Democratic political campaigns. He's a Democrat.

In 1954 he took leave from directing the AFL League for Political Education to help Pennsylvania elect its first Democratic governor in 20 years, Gov. George M. Leader.

During his years of trying to influence legislation in Harrisburg, Mr. McDevitt every morning placed on the desk of each legislator a daily report on where the Pennsylvania AFL stood on pending issues. Early each session, legislators were polled on their position on various issues, and this was reported back to AFL members in their home districts. This was used as a check on their vote later, and any deviation which hurt the AFL's position was widely publicized.

A spry 58, Mr. McDevitt believes there is no substitute for hard work in politics and legislative activity. He also believes that labor can be more effective politically by working quietly, letting the politicians know where it stands, educating the public and getting voters to the polls. He's no drum-beater.

COPE's political machinery is organized down to the state, county and precinct level and inside the individual unions. Union funds are being used for political education and, to get around the federal ban on union political spending, about $2 million was solicited in voluntary $1 contributions from union members for direct contributions to candidates for federal office.

Part of the educational phase was the mailing of the voting records of members of Congress to the homes of all 15 million AFL-CIO members.

Mr. McDevitt, a plasterer by trade, is an executive-type union leader and a clean-desk man. He has served in union and many government advisory posts for more than 20 years.

Jack Kroll, who shared the directorship of COPE with McDevitt, is past 70 and is returning to Cincinnati, where he heads the joint board of the Amalgamated Clothing Workers. He directed the CIO Political Action Committee from the time of Sidney Hillman's death in 1946 until the merger.

## Research

Stanley Ruttenberg, director of the Department of Research, considers himself a practical economist close to the philosophy of the late Philip Murray, who brought him into the CIO as a young graduate of the University of Pittsburgh.

"I try to take a practical, rather than theoretical or academic approach to problems," the 39-year-old Ruttenberg said in an interview with NATION'S BUSINESS. "I don't discuss economic issues except in the framework of political realities—whether the political realities be of government or the trade union movement.

"I try to adapt sound and basic economic principles to the realities of everyday life. Because I believe in the objectives of the trade union movement, I have no difficulty in feeling perfectly at home with its basic economic philosophy."

Mr. Ruttenberg likens himself to economists in other organizations. He says he weighs the pros and cons of a problem against the objectives of the labor movement, and then hits as hard as he can those which support the labor view.

He believes strongly—"I will preach it from the housetops"—that wage increases can take place without price increases and their cost borne through higher productivity and reduced profit margins.

From 1951 until recently, Mr. Ruttenberg says, we have had rela-

tive price stability while wages and productivity have gone up. He sees trouble if workers' wages do not keep up with the rise in productivity.

"Take the 1923-29 period," he says. "Productivity went up 35 to 40 per cent and prices remained relatively stationary.

"But wages increased only two to three per cent while profits increased fantastically. After World War II, labor tried to see that the rise in productivity was matched by wage increases.

"Now we've had relative price stability since 1951 with wage increases. We're not going to have serious repercussions in employment and production such as we had in the '30's unless the balance between wages and productivity get out of line."

Like other staff departments, Mr. Ruttenberg and his staff work under AFL-CIO President George Meany and service AFL-CIO committees which make recommendations to the 29-man Executive Council, the policy-making body.

Mr. Ruttenberg is also staff director for the Economic Policy Committee and regularly prepares a detailed report for the committee on the economic trends as they are developing. A report last spring, approved by the committee and adopted by the Executive Council, saw a mild decline in business activity during the summer and fall and recommended a \$3 billion tax cut immediately to bolster consumer income and spending to prevent a serious decline.

"A cut of about \$3 billion in the individual income tax at this time would still leave a federal budget surplus, especially if first steps are taken to eliminate tax loopholes that grant special tax privileges to wealthy families and corporations," the report stated.

In the background of the recommendation for an immediate tax cut was a resolution of the AFL-CIO merger convention, reiterated by the Executive Council in February, calling simply for a tax cut, but with no recommendation for immediate action.

As for automation, Mr. Ruttenberg believes it can, and will, bring a tremendous increase in the standard of living—"but we can't take this for granted."

In other words, labor must see to it that workers share in its benefits, just as they now share in the benefits of rising productivity. Automation views are contained in an AFL-CIO pamphlet, "Labor Looks at Automation."

There are six economists, including Mr. Ruttenberg, in the re-

## LABOR'S EXPERTS

*continued*

search department. Peter Henle, who handled AFL research work, is assistant director. They assist AFL-CIO committees on economic policy, civil rights, housing, veterans, and safety and occupational health, and service individual unions with specific data. The economic policy committee has three subcommittees: atomic energy and resource development, automation, and farm-labor relations.

The department gets out three monthly publications which go to more than 25,000 union officials, libraries and universities and are available to business on a subscription basis, $1.50 a year.

*Labor's Economic Review* deals with one major subject each month. It has dealt with right-to-work laws, labor monopoly, minimum wage coverage, the farm situation, disability insurance, tax policies, wage increases, low-income families as an unsolved problem, and housing.

*Economic Trends & Outlook,* which goes automatically to subscribers of the *Review,* reports current trends and discusses and comments on significant developments. Sample headlines: "Who Pays For Investment?" "The Wilting White Collar," "Maldistribution of Housing Credit," "Those Crazy Mixed-Up Mergers," "Who Owns American Business?" "$2 an Hour is Not Enough."

*Collective Bargaining Report* covers wage problems and trends in new labor contract settlements.

Mr. Ruttenberg was raised in the coal mining areas of Western Pennsylvania and joined the organizing staff of the Steel Workers' Organizing Committee after graduating from the University of Pittsburgh in 1937. When the SWOC staff was cut in the recession of that year, he went to work for Hull House, one of the original settlement houses in Chicago founded by Jane Addams. He returned to the CIO staff in 1939 and was assigned to the Research Department, becoming director in 1948. He is a younger brother of Harold J. Ruttenberg, former research director of the Steelworkers Union, who is now president of Portsmouth Steel Corporation.

### Lobbying

The Department of Legislation, the AFL-CIO's lobbying arm, was run by the veteran Bill Hushing, and Robert Oliver, former director of the CIO legislative staff, as codirectors, until Mr. Hushing retired and Mr. Oliver resigned a month ago. Andy Biemiller was promoted from the staff to take their place.

This department concerns itself largely with questions of legislative strategy on Capitol Hill—how to get Congress to act favorably on those bills which the AFL-CIO wants passed and how to block action on bills which it opposes. It also watches state legislation and gives assistance to labor lobbyists in state capitals.

There are six men in the department, and their work is supplemented by the legislative activity of many affiliated unions, which concentrate on legislative issues particularly affecting their industries. A legislative council, attended by the legislative representatives of the individual unions, meets monthly to brief everybody on "the Hill situation" and to map a concerted campaign when such action seems advisable.

Besides trying to influence legislation, the Department of Legislation sometimes gets congressmen to introduce bills in which the AFL-CIO is interested. It keeps a complete file of votes cast by members of the House and Senate, even committee votes when available. Questions of vital strategy are taken up directly with Mr. Meany, who is chairman of the AFL-CIO Legislative Committee (made up of Executive Council members) and who had considerable lobbying experience in Albany while president of the New York Federation of Labor.

Mr. Oliver, who will do lobbying for a number of individual unions, had been running the day-to-day activity on the Hill while Mr. Hushing, top AFL lobbyist for 20 years, had been running the office and using the telephone to advantage.

The departure of Mr. Oliver from the legislative staff is indicative of the difference in lobbying techniques between the old AFL and CIO organizations and the intention of Mr. Meany to keep a close rein, personally, on legislative activity.

Mr. Oliver, whom Walter Reuther chose to be CIO legislative director when he became CIO president in 1952, preferred the CIO lobbying technique. The CIO relied more on grass-roots pressures than did the AFL.

The CIO would locate what it called the "influenceable area" of votes on a certain piece of legislation and then, from the home districts and states of the congressmen and senators who could be influenced, bring large groups of rank-and-file union members to Washington to impress their legislators with labor's view. Sometimes this was done back home when Congress was in recess.

The country was divided into 13

regions for legislative field action, each with a director in charge who could get the right kind of delegations to Washington on short notice. Once in Washington, the delegation could execute all the previously planned legislative contacts in a day.

The AFL relied more on personal contact work by officials in Washington or others from the states and cities who might have some influence with a senator or representative on an issue.

Mr. Biemiller is in basic agreement with Mr. Meany that it is up to the union leadership to convince members of Congress that the AFL-CIO's position is a right one, rather than trying to pressure a legislator by a mass lobby from back home.

This approach, which the AFL-CIO will follow, recognizes that bringing local people to Washington can be effective, but those who make the trip should be selected officials or other individuals whose views a particular legislator being contacted would have reason to respect.

Mr. Biemiller, who is 50, got his labor training in Wisconsin, although he is a native of Sandusky, Ohio. He has had extensive labor and legislative experience.

As a New Deal Democrat, he was elected to the House of Representatives from Milwaukee in 1944 and 1948. He has remained in Washington in various union capacities and as a labor consultant to government agencies.

Before entering Congress, Mr. Biemiller was graduated from Cornell University, taught at the University of Syracuse and University of Pennsylvania, engaged in newspaper and labor education activities, served in the Wisconsin Legislature as party floor leader while an organizer for the Wisconsin AFL and, during World War II, was on the War Production Board staff.

As one of four AFL-CIO legislative staff members who divided responsibilities on Capitol Hill, Mr. Biemiller worked mainly on social security, foreign aid, schools, education and atomic energy legislation. He doesn't feel his background as a New Deal member of Congress is a handicap in trying to influence Republicans or conservatives of either party.

"I have no trouble with bipartisanship," he told NATION'S BUSINESS. "In Congress I was first a labor man and worked closely with many Republicans."

Walter J. Mason, with the AFL for many years, concentrates on labor relations legislation, such as Taft-Hartley, minimum wage, and housing.

George D. Riley, a former news-

## LABOR'S EXPERTS

*continued*

paper writer of government employe news, keeps an eye particularly on legislation affecting government workers, highways, and aid to depressed areas.

Hyman Bookbinder, who had been with the CIO clothing workers, concerns himself largely with legislation related to lobbying, elections, unemployment compensation, and the federal budget.

Here are the major AFL-CIO objectives in this Congress:

Taxes—Reduction from 20 per cent to 10 per cent in tax rate on first $1,000 of income.

Taft-Hartley—Repeal of Section 14(b) which sanctions state right-to-work laws and easing of secondary boycott restrictions.

Welfare Funds—Disclosure of financial operations of all employe welfare funds.

Minimum Wage—Extension of coverage and increase in minimum from $1 to $1.25.

Distressed Areas—Federal aid to areas with chronic unemployment.

Social Security—Increase in $4,200 limit on taxable wage.

Civil Rights Legislation.

Farm Prices—Fixed price supports.

Housing—A program to provide slum clearance, low-cost housing and aid to middle-income families, with a goal of two million homes a year.

Schools—Federal aid for both schools and teacher salaries.

## Legal

Al Woll, the AFL-CIO's lawyer, has his own firm for general legal practice in Washington, but it happens that all of the practice involves unions because, he says, when you do work for unions you don't get anything else.

He is general counsel for the AFL-CIO and the Teamsters' Union and gets some work from other unions. There are five attorneys in the office. One is William S. Tyson, former solicitor in the Department of Labor.

Mr. Woll, son of the recently deceased Matthew Woll, AFL-CIO vice president, represented the AFL from 1947 until the merger.

Mr. Woll's legal experience after his graduation from the University of Illinois Law School in 1927 was in government activity not related to labor relations matters. He had been U. S. District Attorney in Chicago for seven years, under a Roosevelt appointment, when he went to Washington as AFL counsel. Highlight of that service was prosecution of German saboteurs in 1942. Previously he had done appellate work in the state's attorney's office in Chicago and, as special assistant to the Attorney General in Washington, he handled matters involving mail fraud, the Securities Act and the Public Utility Holding Act.

Mr. Woll does not try to influence AFL-CIO policies, but does try to help make them effective. On legislative matters, he analyzes the effect of pending bills and legislation already passed from the viewpoint of labor's interests. He seldom is seen in the Capitol.

The Taft-Hartley law was passed just before Mr. Woll left Chicago so he was not involved in the fight over that legislation. But he has followed closely the application of Taft-Hartley, the Hobbs Anti-Racketeering Act and other labor laws by government agencies and their interpretation by the courts, and sometimes he has initiated test cases.

For example, if he thinks an agency or court decision will have an adverse effect from the AFL-CIO's standpoint, he calls it to Mr. Meany's attention. Mr. Meany may authorize an appeal or take the question up with the Executive Council. Often the AFL-CIO itself is not involved in the situation directly and intervenes as a "friend of the court."

Mr. Woll got reversal in the Court of Appeals, for instance, of a decision by the National Labor Relations Board in a relatively minor case in which the Board held a union responsible for picket-line violence because it did not publicly disclaim connection with the violence. If the decision had stood, he felt, it would have hung as a threat against all unions in troublesome strike situations.

Sometimes Mr. Woll becomes concerned not by the decision itself, but by some language contained in the agency or court opinion which might evolve in unfavorable action in future cases. He then leaves it to his client whether to make a court test or seek amendment of the law.

An example involved the federal ban on political expenditures by unions. The Supreme Court, in holding that the endorsement of congressional candidates in a special edition of the *CIO News* did not involve an illegal political expenditure, limited the approval to union newspapers. It did not directly cover political indorsements over the radio or TV and through paid newspaper advertising.

To test this point, the AFL Painters Union local in Hartford, Conn., on Mr. Woll's advice used newspaper ads and radio time to indorse candidates to the 1952 Republican convention who opposed the nomination of Sen. Robert A. Taft for president. The courts upheld the expenditures as legal, but limited their approval by hinging it on the fact that the union did not publish a newspaper and was using this means of communicating with its membership. A broader test involving the United Automobile Workers is before the Supreme Court.

Mr. Woll was on the spot when differences between the AFL-CIO Executive Council and Dave Beck's Teamsters—both his clients—were in the news a few months ago. But he was able to smooth things over, giving advice to both sides.

Arthur Goldberg, who was counsel for the CIO, now fills that capacity for the new Industrial Union Department and also handles special assignments. Recently he presented evidence before the AFL-CIO Ethical Practices Committee involving three unions accused of engaging in corrupt practices which may lead to their expulsion.

Thomas Harris who was associate general counsel of CIO, is employed by the AFL-CIO as an attorney with an office at AFL-CIO headquarters. He works under Mr. Woll's supervision. END

# Consumers expect price **rise**

MORE CONSUMERS look for long-range price increases today than did so six years ago.

That's a new finding of the Survey Research Center of the University of Michigan, which has just completed a study of consumer attitudes and inclinations to buy.

In 1951, when the Center first analysed consumer price expectations, 17 per cent of the buyers said they expected prices to rise in the five years ahead. Nineteen per cent said they looked for the price trend to be downward.

Today the picture has been reversed. Now almost 35 per cent expect the price trend to be upward in the coming five years; only nine per cent expect a decline.

The new survey shows that most consumers are satisfied with their financial situation and are confident about the future. Three fourths of the American people, judging from the sample, expect good times in 1957.

Here are other key findings of the new survey, based on late-1956 interviews with 1,375 selected consumers across the nation:

- ▶ Plans to buy new cars have increased substantially over survey findings in 1956, although they remain below the peak reached in the fall of 1954.
- ▶ Plans to buy used cars have risen sharply.
- ▶ Plans to buy new homes also have risen significantly, although there are indications that some of the eager, potential home buyers were unaware of the tight money situation when they were interviewed.
- ▶ The new survey shows that inclinations to buy are most buoyant among middle and upper income groups, while the inclinations to buy in groups with incomes under $3,000 have deteriorated somewhat. It is noted, however, that the lower income group has been steadily decreasing in size.
- ▶ About 60 per cent of the people with incomes of more than $3,000 say that persons like themselves have no financial worries these days.
- ▶ As to general expectations about business conditions, here, too, continued optimism is recorded. END

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# simple truth

ANY community or any state can, in these, the most prosperous times in our history, educate its own children, if it wants to, without federal intervention.

# tight money is a bargain

WE ARE modernizing a standard plot of melodrama.

This plot, as previously played, was built around the poor but honest hero's struggle to pay off the mortgage on the old homestead. It's appeal was assured because everyone agreed that a man who had to borrow money was at the mercy of the wicked money-lenders. This greatly simplified the dramatist's problem of character building.

The modern version is more complex. It introduces a new villain, the Federal Reserve Board, whose dastardy is that, by making money expensive, it prevents the hero from mortgaging the old homestead in the first place.

Properly presented, this new plot is just as tear-jerking as the old one.

This shows that we are an adaptable people. It also shows that we prefer a good sob story to fiscal facts.

This preference permits us to mourn because money is hard to borrow instead of rejoicing because prices of everything else we need have remained comparatively stable.

The same policy is responsible for both phenomena. What it did was to restrain the creation of new bank credit. This reduced the amount of lendable funds and interest rates rose to reflect the scarcity.

The rising interest rate made it less easy to use borrowed money to bid inflated prices for steel, glass, cement and other materials in limited supply. This reduced the amount of materials sold hardly any—though it did reduce the number of dollars paid for them and the products they went into.

This caused complaints of "tight money." Tight money sounds awful. So it was easy to criticize the policy and the Federal Reserve Board which promulgated it. The Board was even condemned as the tool of a Big Business Administration, an effective but inaccurate indictment since the Board is a nonpolitical agency and the Administration was among its critics.

The term "tight money" was only a little less inaccurate. Actually borrowing and lending reached new peaks in the past year. Debt rose by about $50 billion. At the same time, gross national product increased by $17 billion and national income by nearly as much. New construction reached an all-time peak of $44 billion.

Average hourly earnings in manufacturing passed $2 for the first time in history and we had virtually full employment for the whole year.

We had, in short, economic growth, high employment and stability.

If the price of these things was so-called tight money—we got a bargain.

# unions shouldn't collect taxes

HERE'S an argument some union spokesmen are using to promote closed shop contracts and to support their opposition to state right-to-work laws:

*A union is like a government in that it provides benefits for all its constituents. Therefore, all workers should pay their taxes.*

Here's an answer to that argument:

A union is not a government. More and more unions are becoming political organizations, but that doesn't make them governments. Many of their members are captured through closed shop contracts and have to pay for political campaigning whether or not they believe in the policies or candidates chosen by union leaders in their many marble palaces in Washington.

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